S. HRG. 98-1001

USE OF IMF RESOURCES BY MAJOR COPPER-PRODUCING COUNTRIES

HEARING

BEFORE THE

SUBCOMMITTEE ON
INTERNATIONAL ECONOMIC POLICY

OF THE

COMMITTEE ON FOREIGN RELATIONS
UNITED STATES SENATE

NINETY-EIGHTH CONGRESS

SECOND SESSION

ON

S. 2524

A BILL ENTITLED THE "COPPER AND EXTRACTIVE INDUSTRIES FAIR COMPETITION ACT OF 1984"

AUGUST 2, 1984

Printed for the use of the Committee on Foreign Relations

U.S. GOVERNMENT PRINTING OFFICE
38-247 O WASHINGTON : 1984

5381-35

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USE OF IMF RESOURCES BY MAJOR COPPER-PRODUCING COUNTRIES

THURSDAY, AUGUST 2, 1984

UNITED STATES SENATE,
SUBCOMMITTEE ON INTERNATIONAL ECONOMIC POLICY
OF THE COMMITTEE ON FOREIGN RELATIONS,
Washington, DC.

The subcommittee met, pursuant to notice, at 10:10 a.m., in room SD-419, Dirksen Senate Office Building, Hon. Charles McC. Mathias, Jr. (chairman of the subcommittee) presiding.

Present: Senators Mathias and Biden.

Senator MATHIAS. The subcommittee will come to order.

The International Economic Policy Subcommittee meets today to hear testimony on Senate bill 2524, the Copper and Extractive Industries Fair Competition Act of 1984, introduced by Senator Domenici and referred to the Committee on Foreign Relations.

I think it is appropriate to say that this legislation is far from being the only effort that the distinguished Senator from New Mexico has made to draw attention to the critical plight faced by the extractive industries in this country. He has been a leader in the U.S. Senate in making the case that American men and women in copper and in other extractive industries are losing jobs as the companies they work for close down in the face of pressures that simply cannot be withstood.

He has not only informed the Senate but he has been at the forefront in seeking legislative remedies for the problems facing these industries. Senate bill 2524 is simply the latest effort by the Senator in this area. Rather than attempting to describe the legislation, we are very pleased to have him here today to lead off the hearing on this initiative.

[Text of S. 2524 follows:]

II

98TH CONGRESS
2D SESSION

S. 2524

Entitled the "Copper and Extractive Industries Fair Competition Act of 1984".

IN THE SENATE OF THE UNITED STATES

APRIL 3 (legislative day, MARCH 26), 1984

Mr. DOMENICI introduced the following bill; which was read twice and referred to the Committee on Foreign Relations

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A BILL

Entitled the "Copper and Extractive Industries Fair Competition Act of 1984".

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SHORT TITLE

SECTION 1. This Act may be cited as the "Copper and Extractive Industries Fair Competition Act of 1984".

SURPLUS COMMODITIES

SEC. 2. The Bretton Woods Agreements Act (22 U.S.C. 286 et seq.) is amended by adding at the end thereof the following:

"USE OF THE COMPENSATORY FINANCING FACILITY OF THE FUND

"SEC. 51. (a) The Secretary of the Treasury shall instruct the United States Executive Director of the Fund to present proposals to the Executive Board of the Fund at the earliest practicable time to ensure that countries experiencing a shortfall in export earnings from nonfuel, nonmetal or nonferrous metals or minerals, as determined under policies of the Fund regarding the use of its compensatory financing facility, may not borrow from the compensatory financing facility if such shortfall was produced by declining prices of a nonfuel, nonmetal or nonferrous metals or minerals commodity in surplus on world markets, unless the borrowing country enters into an agreement with the Fund to adjust production and not to add further to excess capacity and to take other necessary action to stabilize the market for such commodity.

"(b) The Secretary of the Treasury shall instruct the United States Executive Director of the Fund to vote against the provision of any loans or other financing assistance from the compensatory facility of the Fund to countries producing surplus commodities before the Executive Board completes action that would implement the provisions of subsection (a).".

REPORTING REQUIREMENT

SEC. 3. (a) Beginning 90 days after the date of enactment of this Act, and at intervals of 90 days thereafter until a date 3 years after the date of enactment of this Act, the Secretary of the Treasury shall prepare and transmit to the President and to the Congress a report—

(1) listing all appraisal reports which have been circulated during the preceding 90 days within the international financial institutions described in subsection (c)(2) for project assistance which would establish or enhance the capacity of any country other than the United States to produce a commodity for export, if—

(A) such commodity is in surplus on world markets or is likely to be in surplus on world markets at the time the resulting productive capacity is expected to become operative; and

(B) such assistance will cause substantial injury to United States producers of the same, similar, or competing commodity; and

(2) describing requests by any of the major copper producing countries for assistance from the International Monetary Fund.

(b) The Secretary of the Treasury shall instruct the representatives of the United States to the international financial institutions described in subsection (c)(2) to take into account,

in their review of loans, credits, or other utilization of the resources of their respective institutions, the effect that country adjustment programs would have upon individual industry sectors and international commodity markets in order to (1) minimize any projected adverse impacts on such sectors or markets of making such loans, credits, or utilization of resources and (2) avoid wherever possible government subsidization of production and exports of international commodities without regard to economic conditions in the markets for such commodities.

(c)(1) For purposes of paragraph (2) of subsection (a), the term "major copper producing countries" refers to Chile, Indonesia, Papua New Guinea, Peru, the Philippines, Zaire, and Zambia.

(2) The international financial institutions referred to in subsections (a) and (b) are the International Monetary Fund, the International Bank for Reconstruction and Development, the International Development Association, the Inter-American Development Bank, the Asian Development Bank, and the African Development Bank.

(d) Section 50 (a) of the Bretton Woods Agreements Act (22 U.S.C. 286 et seq.) is amended—

(1) by striking out paragraph (1); and

(2) by redesig ng paragraphs (2) through (5) as paragraphs (1) through (4), respectively.

IMPORT RELIEF FROM INJURY CAUSED BY IMPORT COMPETITION

SEC. 4. (a) CAUSAL RELATIONSHIP REQUIRED FOR RELIEF.—

(1) IN GENERAL.—Paragraph (1) of section 201(b) (19 U.S.C. 2251(b)) is amended by striking out "substantial cause" and inserting in lieu thereof "cause".

(2) CONFORMING AMENDMENTS.—

(A) Sections 201(b)(2)(C) and 202(a) are each amended by striking out "substantial cause" and inserting in lieu thereof "cause".

(B) Paragraphs (3) and (4) of section 203(f) are each amended by striking out "substantially".

(C) Subsection (a) of section 201 is amended by striking out paragraph (4) and redesignating paragraphs (5) and (6) as paragraphs (4) and (5), respectively.

(b) INTERNATIONAL TRADE COMMISSION RECOMMENDATIONS ADOPTED IN ABSENCE OF PRESIDENTIAL ACTION.—

(1) IN GENERAL.—Subsection (c) of section 203 (19 U.S.C. 2253(c)) is amended to read as follows:

"(c) If the President determines under section 202(b) that he will not provide other import relief within his discre-

tion, the President shall, within 15 days after the date of such determination proclaim the increase in, or imposition of, any duty or other import restriction on the article which was recommended by the Commission under section 201(d)(1)(A).".

(2) PERIOD FOR WHICH RELIEF IS EFFECTIVE.—Paragraph (1) of section 203 (e) (19 U.S.C. 2253(e)) is amended—

(A) by striking out "within 15 days" and inserting in lieu thereof "on the day which is 90 days",

(B) by striking out "90 days" and inserting in lieu thereof "on the day which is 120 days", and

(C) by adding at the end thereof the following new sentence: "Except as otherwise provided by this section, any import relief provided under this section shall be effective for at least 3 years.".

(3) ELIMINATION OF PRESIDENT'S DISCRETION IN TERMINATING RELIEF.—Subsection (h) of section 203 (19 U.S.C. 2253(h)) is amended by striking out paragraph (4) and redesignating paragraph (5) as paragraph (4).

(c) EFFECTIVE DATES.—

(1) INVESTIGATIONS OF INTERNATIONAL TRADE COMMISSION.—The amendments made by subsection (a) shall apply with respect to investigations conducted after the date of enactment of this Act.

(2) REPORTS OF INTERNATIONAL TRADE COMMISSION.—The amendments made by subsection (b) shall apply with respect to reports of the International Trade Commission made to the President after the date of enactment of this Act.

(d) REFERENCES.—Whenever in this section an amendment is expressed in terms of an amendment to a provision, the reference shall be considered to be made to a provision of the Trade Act of 1974.

POLICY ON HARD COMMODITIES

SEC. 5. The Secretary of the Treasury shall direct the United States Executive Director of the International Monetary Fund to use the voice and vote of the United States in the Fund to obtain the implementation of policies that would remove hard commodities, as defined by the Fund, from eligibility under the compensatory financing facility of the Fund.

O

Senator MATHIAS. I want to welcome Senator Domenici, Senator Bingaman, and Senator Garn, all of whom have taken leading roles. Senator Domenici.

STATEMENT OF HON. PETE V. DOMENICI, A U.S. SENATOR FROM NEW MEXICO

Senator DOMENICI. Thank you very much, Mr. Chairman.

May I right at the outset thank a number of Senators for all the help they have given as we attempt to solve this problem. I want to thank my distinguished colleague from New Mexico, Senator Bingaman, for all the help he has been. You may not be aware of this, Mr. Chairman, but not only is the distinguished junior Senator concerned but he is a resident of the county that is most adversely affected and it is the center of copper production and jobs in New Mexico. And I want to thank Senator Garn for all the help he has been.

There is another distinguished Senator who has been helpful, who could not be here. Senator Paul Laxalt has a statement and I would ask that it be made a part of the record at this point.

Senator MATHIAS. Senator Laxalt's statement will be made a part of the record at this point.

[Senator Laxalt's prepared statement follows:]

PREPARED STATEMENT OF HON. PAUL LAXALT, A U.S. SENATOR FROM NEVADA

I am deeply saddened by the reasons that compelled this hearing, namely the massive unemployment in the copper industry, a surge of copper imports, continuing subsidization of foreign mines and decreasing domestic copper production. I thought the situation was as bad as it could get, but copper prices dropped again this week to 57¢ a pound. The average cost for this century has been $1.15.

18,000 copper workers have lost their jobs in the past few years. The unemployment rate for the copper industry is over 40 percent, with only 9 of the 25 largest U.S. copper mines open. At the same time, production outside the United States increased.

The reason that all of these hard working men are out of work is because of imports. The role played by the IMF, the World Bank and its affiliates as well as the activities of the Inter-American Development and the African Development Bank is startling. For example, IMF assistance to Chile, Peru, Zaire and Zambia during the period of 1975 to 1983 totalled nearly $4.4 billion. Specific loans for authorized projects at the development banks more than equal the $1.3 billion that the U.S. industry spent on modernization in the past 5 years. U.S. modernization was funded in our capital markets at market rates, while many foreign projects received below market rate loans at the development banks.

The result is depressed copper prices and unemployment here in the United States. I sincerely hope that some form of meaningful relief can be found for the industry. In this regard, it would seem to be in everyone's interest if a voluntary production restraint agreement could be negotiated with the foreign producers.

I have long advocated a better, coordinated national approach to our copper industry's problems, and I sincerely hope today's hearing can help us move toward that goal.

Senator DOMENICI. Thank you.

Mr. Chairman, I am pleased that the Subcommittee on International Economic Policy is the forum to discuss the dynamics of the international copper market and the problems facing the U.S. copper industry. This is because economic interdependence among the copper-producing nations is an inescapable reality.

Unfortunately, the market has been so distorted that U.S. producers have lost $1,055 million in the last 3 years and 18,000 copper workers have lost their jobs since 1979. During the 1979–83

period imports increased 240 percent. Faced with the economic imperatives of massive losses and a stunning surge of imports, the U.S. copper producers brought a section 201 case before the International Trade Commission [ITC].

Last month that Commission ruled 5 to 0 that the industry had been harmed by imports. Commissioner Stern pointed out that there is a global supply and demand problem facing the U.S. copper industry. The President has until September 14 to decide what to do about it.

While the witnesses were preparing their testimony for this hearing various members of the Trade Policy Review Group—the Secretaries of Treasury, Commerce, State and Trade Ambassador Brock—have been reviewing the options for import relief under section 201 of our Trade Act. The reasons why the ITC ruled 5 to 0 in the industry's favor are related in a very direct way to the topic of the hearing this morning.

Today we are going to hear testimony on the international copper market and the role the multilateral lending institutions have played in underwriting production and export policies of the Third World copper producers. These policies have also directly contributed to prolonging both the 1974–78 and the present copper recessions.

The ITC petition and Senate bill 2524 share the same ultimate objective, which is to restore free market behavior to the international copper market. As a matter of fact, one might even say more than that it is to restore some common sense to the marketplace. This is in the best interests of all copper products, including the government-owned producers in Latin America.

Both the 201 petition and this bill address the perversions in the marketplace—that is, nationalization, development bank loans, and irrational production policies.

The world copper market is very sensitive to the balance between supply and demand. The price for copper, Mr. Chairman, this week is 56 cents a pound because there is an overabundance of copper being produced by foreign producers. This is the lowest price for copper in real terms in this century. As a matter of fact, even our foreign competitors are describing this copper price in historic terms. I hear that in one country it is being said that this is the lowest price for copper since the French Revolution.

The current situation could have been avoided had the government-owned foreign producers reduced production and exports to correspond to demand. I know it will be said later on that they cannot do this because they have a cash-flow problem, that they need growth, that they have to have money to repay their loans. I submit to you this is not an issue of growth because for every pound of copper that they continue to produce at prices well below market they add no growth. They add no jobs.

As a matter of fact, they eliminate jobs. The notion of growth at less than market value, subsidized by foreign money, some of which is ours, is a ridiculous position upon which to base America's position with reference to this disaster.

First, I would like to talk about our industry. This industry has the ability to compete and it can compete. We must remember, however, that they are free enterprise companies. They will com-

pete with any free enterprise companies in the world. The U.S. worker is productive. The industry itself is, for the most part, modern and efficient, and where it is not they are moving as rapidly as possible to make it efficient.

However, being the most productive is not enough because the competition is not coming from companies but from more than a half dozen foreign governments. Forty percent of the free world's copper is government-owned—that is, 40 percent that trades in the free world. These producers, Mr. Chairman, have no incentive to adhere to the law of supply and demand and as a result are wrecking the international copper markets.

They may think they are helping themselves. They are indeed wrecking themselves. Their overproduction is responsible for copper prices that are lower in real terms than prices at the beginning of this century. To make matters worse, the only market for such vast quantities of copper is the United States of America.

Prior to the wave of nationalization which began in the late 1960's, most major world producers of copper, acting individually in response to market forces, generally reduced output during recessions. For example, world demand declined in 1958. U.S. production dropped 10 percent, Northern Rhodesia, now Zambia, dropped 8 percent, Chile dropped 5 percent, Canada 3 percent, and the Belgian Congo, now Zaire, 2 percent.

The effectiveness of this 1958 response—nothing clandestine or conspiratorial, just good marketplace common sense—to the supply and demand of the world market was evidenced by a very short recession in the copper industry and a prompt recovery of copper prices in 1958. In 1958 the average price of copper was 25.8 cents a pound; in 1958 it averaged 31.2 cents, up 21 percent.

Incidentally, using constant prices with the 1982 Consumer Price Index as a deflator, the 1958 price was the equivalent of 86 cents per pound in 1982 dollars and the 1959 price was equivalent to $1.03 in 1982 dollars. The actual 1982 average price was only 72.9 cents, and today it is 56 cents. This is evidence of the extreme distortion and this is the reason the copper industry is going broke in America and the reason that 18,000 productive workers are unemployed.

We have a strong economy in the United States. Recovery is underway and has been there for a while. But it is absolutely embarrassing to note that this has had no impact on the price of copper unless one wants to conclude that the adverse affect of the lowest price in history is indeed an impact of the recovery.

Despite this oversupply, these countries that I have referred to continue overproduction to maintain employment. Many government producers are at full capacity, even when the marketplace falls below their costs. At 56 cents a pound, the United States, Canada, Zambia, Zaire, Australia, Europe, Peru, the Philippines, South Africa, and Mexico are all losing money. However, in the case of the government-owned producers the profit incentive vital to our free enterprise system has been replaced by the need for maximum revenue to service their international debt.

I repeat. In some of these countries the need for maximum revenue prompts maximum production, even with a glut, with one of the reasons to service their international debt. Ironically, these

countries would earn more hard currency if they produced less and earned a fairer price for the copper they did produce. Dr. Daniel Maxim will testify regarding this. He has elasticity studies that substantiate this particular point.

CIPEC [the Intergovernmental Council of Copper Exporting Countries], is responsible for the world copper glut and the depressed prices. Some writers have compared CIPEC to OPEC [Organization of Petroleum Exporting Countries] and have referred to the eight members—Chile, Zambia, Zaire, Peru, Australia, New Guinea, Yugoslavia, and Indonesia—as the copper cartel. Unlike OPEC that wanted a higher price, this cartel's present policy is to depress the prices. But they want a bigger market share.

At a time when the U.S. producers were shutting down or curtailing production to bring the market more into balance, this cartel continues a steadfast policy of maintaining production in spite of falling prices. By the end of 1982 they continued high production. Chile, for example, if you can believe it, increased production 15 percent in 1982. The other countries maintained their operations at 100 percent of existing capability.

The U.S. response, with no alternative because it was that or go broke, was to cut production 25 percent at the same time. During 1982, when producers were closing down, the cartel made its decision to increase production and the IMF [International Monetary Fund] passed out over $1 billion under the Compensatory Financing Facility [CFF] to six LDC clients, paying them this $1 billion because they were producing copper at a loss and at a greater loss than the year before, only indicating that this has become a crutch that cripples rather than cures.

This is a substantial amount of money in relation to the size of the copper industry. These six countries accounted for almost 50 percent of the production of copper in 1982. Five of them are members of the CIPEC cartel, who voted to maintain and increase production, despite reduced demands and major reasonable U.S. curtailment.

We have given these countries a crutch, as I said. I am referring to the Compensatory Financing Facility, with its stated purpose of, and I quote, "assisting members when they experience balance-of-payment problems attributable to temporary shortfalls in merchandise exports." It is a crutch because it is supposed to help, but, as I indicated, it will only cripple.

It cripples these government-owned producers because they are encouraged by the IMF to keep on producing, thereby driving the price not up but down, thereby causing them to need more money, not less, thereby affecting their money situation adversely, not positively. These countries lose more and more money and they, therefore, need more and more money by way of assistance. That is why I conclude that they are crippled.

In contrast, a relatively modest adjustment in production and exports would have been promptly reflected in an improved market price, and these policies of maximizing output have not only caused excessive imports into the United States, doing the damage that we have already described to an industry that is efficient and moving toward more efficiency, but have also resulted in the exploitation

of their own natural resources to their own detriment and to the effect of the Compensatory Financing Facility underwriting excess.

It has done that wherever excess production of copper exists, thus encouraging a self-perpetuating cycle of greater production and lower prices. In fact, the entitlement to Compensatory Financing, under its rules, has been enhanced by the low cost of copper. By requiring that a borrowing country demonstrate that their earnings shortfall is beyond their control, the IMF has ruled out production management as a means of optimizing foreign exchange.

If we think that our country should be involved in some kind of financial assistance, I would suggest that rather than make the assistance the type I have described, which basically is directed at making sure that the big banks are going to be repaid and thus we give them compensatory to keep pace with their debts, I would submit that maybe we ought to give the assistance directly.

It might even sound absurd, but I think maybe a PIK [payment-in-kind] program for copper would have been far more beneficial than IMF's compensatory approach. At least you would help the countries and help copper production.

Senator MATHIAS. I hope it would not have been as expensive as the PIK program for farm products.

Senator DOMENICI. Obviously we would settle for much less. [Laughter.]

And I am not even suggesting it. I am merely saying that it is a dramatic example of how you might directly assist it rather than indirectly try to help them continue to pay their debts off.

Natural resources such as copper are a one-season harvest. A country producing as fast as it can and selling regardless of price is obviously being very short sighted. The result has been a windfall from developing countries to the industrialized countries, where most of it is consumed.

Privately owned companies could not pursue such a course. Privately owned companies would cease to exist. The production policies followed by government-owned producers are possible only because of the infusions of funds from the IMF. The use of these funds by the principal copper exporting countries which I have just described but I will more specifically limit to Chile, Peru, Zaire, and Zambia, has been very large, totalling $4.4 billion during the period 1975 to 1983.

The pattern of borrowing by these countries is inversely related to copper prices in real terms. Compensatory Financing Facility obligations are the largest part of that total. Chile received just under $407 million in Compensatory Financing Facility funds during this period; $315 million was borrowed in 1983.

The central thrust behind the bill before the chairman and the committee is to make the Compensatory Financing Facility work more like the PIK program. Under such a reformed CFF, the IMF would be authorized to enter into agreements with copper-producing countries in appropriate cases to draw from the Compensatory Financing Facility an amount equivalent to the revenues deemed foregone by not producing or not exporting a stipulated amount of copper.

Such agreements would be formulated on a case-by-case basis. This would be in contrast to the present rules, which penalize a member when production is curtailed or stocks are withheld from the marketplace because such action is deemed intentional and not beyond the control of the producing country.

Dr. Maxim, who is going to testify later, will testify that Latin American copper-producing countries would earn more and be in a better position to service their international debt if such a curtailment rather than an overproduction was in existence.

The IMF should be concerned about the effect of the CFF assistance on individual commodity prices and on other countries. I believe that such a policy change would prevent distortions in the copper and other mineral markets in countries that are dependent on commodity exports as their source of foreign exchange.

At this point I would like to tell the chairman and the committee that we hear a lot about making sure that we do not cause any adverse effect on inflation by what we are suggesting here or what we are suggesting to the President with reference to the section 201 relief. I would like to give the chairman a number. If there was a 19-percent increase in the copper market prices, which could result if there were about a 10-percent agreed-upon reduction in production, it would have the following effect.

An average automobile in the United States would suffer an increase of $4.31 in its price at the manufacturer. The percent is 0.04 percent—4 hundredths of 1 percent. On an average house, $43.69, for a 0.05 percent. On a dishwasher it would be 0.09 percent. We have other examples, but those would suffice at this point to dispell any notion that bringing common sense and marketplace relationships back to this part of production in the world would have an adverse effect on us.

Another section of S. 2524 addresses a longer term issue, and that is the project loans made by the World Bank and other development banks for mines, smelters, and refiners. The purpose of these loans is to increase the production capacity for surplus commodities like copper. These are loans to produce more of something the world has too much of already. The availability of this credit stimulates new capacity, contributing to the imbalance that already exists between supply and demand.

In January 1983 the International Finance Corp. [IFC], a subsidiary of the World Bank, had under consideration participation in a $400 million loan to expand the Cananea copper mine owned by the Mexican Government. In May 1983 the International Finance Corp. participated in a $60 million expansion of the privately owned Montos Blancos copper mine in Chile.

In November the Inter-American Development Bank [IADB] in copper approved a $268 million loan to Chile's Codelco as part of a $670 million plan for modernization and expansion of two of the lowest cost mines in the world. This loan is at a concessionary rate that will save Codelco $279 million in interest over the term of the loan.

Why does the lowest cost copper producer deserve this type of assistance, especially when we all know that they are losing money at the price they are selling and they are doing it all only because they think by producing more at less they are making money? All

of this occurred during a year when the market was oversupplied. The copper industry in the United States was in deep distress and the outlook for growth in consumption was discouraging at best.

1983 was the year that 16 of the 25 largest mines in the United States were closed down, a year that for each dollar of net sales the U.S. industry lost 16 cents, while Chile, Peru, Panama, Brazil, and Argentina have 15 copper products they would like to expand or open by the end of the century.

If they finance these like they have their other projects, it will be with the help of the World Bank and the International Finance Corp. I do not know who these countries think will need all this new production, and I do not know how long we will sit by and watch it occur.

Current law requires that Congress be advised once a year of loans pending before the development banks. That reporting requirement is not a timely enough requirement to be meaningful. Congress needs the information every 90 days so that we can be aware of what projects are before the banks. I do not think that these development banks should be making any loans to increase copper capacity.

It is shocking to me that given this current and projected overcapacity that the world has for copper that the banks would even consider significant new copper loans. Nonetheless, I learned about a project the World Bank is considering for Argentina, as if the copper market does not have enough production capability already, and as if Argentina does not already have enough problems with its debt. It surely will not pay any of its debt off at the current price of copper or the predictable one without major changes in the way we do business.

There needs to be better information about what is going on at the World Bank and the other development banks. I am told that Treasury even needs better communication with the development banks. I am told that when the World Bank decided to make a $75 million loan to Zambia and $27 million loan from the African Development Bank [ADB], the approval was given at a meeting that the United States did not even know was occurring.

I introduced this bill because I believe that the copper industry in the United States deserves some help. I do not believe that good foreign policy dictates turning our backs on the American copper industry and its workers. This bill calls attention to the provisions of the marketplace and to the fact that 40 percent of the world's market production is owned by governments, not companies. Our companies are facing problems that they are powerless to address.

What is really needed is government-to-government negotiations for some production policies. The section 201 proceeding before the President is an excellent opportunity for the administration to correct a problem that has been plaguing this industry since the mid-1970's. To optimize the opportunity I would urge that negotiations begin immediately with Chile, Zambia, Zaire, and Peru for a production restraint agreement.

The goal should be an agreement to reduce production from their current excessive levels by an amount sufficient to correct the present artificial depression of the world prices, negotiations that seek to obtain a commitment from these government-owned pro-

ducers to adjust their production levels over the next 5 years, to track changes in world copper consumption, thereby reversing the historical trend of merely ignoring cyclical downturns.

Mr. Chairman, I am pleased to have some people from my State here who will testify. Manuel Serna is here today. He is a member of the United Steelworkers and also a commissioner for the county of Grant, wherein most of our copper lies.

Another distinguished New Mexican is State Representative Thomas Foy. He represents the counties Grant and Hidalgo. Both men represent thousands of workers and I know they will have some interesting things to tell you when it is their turn to appear before this distinguished committee.

Mr. Chairman, I thank you for your patience and it is a privilege to appear before you.

Senator MATHIAS. Thank you, Senator Domenici.

Let me ask Senator Garn and Senator Bingaman about their time constraints, if any, today.

Senator BINGAMAN. I do have a problem, but I know that my statement is relatively brief.

Senator MATHIAS. Very well.

Senator Domenici, I would ask you to stay with us, if you can, and let's go forward with Senator Garn before I ask you my questions.

STATEMENT OF HON. JAKE GARN, A U.S. SENATOR FROM UTAH

Senator GARN. Thank you very much, Mr. Chairman.

We do have a mutual interest. Although I have no jurisdiction over this particular bill as chairman of the Banking Committee, we do share some joint jurisdiction with this subcommittee over the international development banks. So I speak not only as a Senator from Utah, but as a chairman of a committee that is going to look very seriously at the activities of these banks from the Banking Committee perspective.

Mr. Chairman, I am going to testify about the relationship between the economic situation in Utah, particularly that of the copper mining industry, and the policies pursued by the international development banks. It is my belief that there is a substantial linkage between the policies of those development banks and the health of the copper industry in the United States. But first let me give you a brief thumbnail sketch of the condition of Utah copper mining.

The situation is tragic.

Within the past 30 days, nearly 2,000 additional Kennecott employees have lost their jobs. Over the past 3 years, employment levels at Kennecott's Utah Copper Division have dropped by nearly 5,000 people to a skeletal total of only 2,600 today.

At the company's Bingham Canyon mine, hundreds of millions of dollars worth of heavy industrial equipment sits row by row idle. Dollar losses for the copper industry in Utah over the past 3 years could exceed $100 million and with the world price of copper still under 60 cents a pound, those losses will continue to climb. Along with last month's drop in employment came a two-third drop in

copper production which clearly affects the company's profitmaking capability.

Kennecott used to be the single largest private employer in the State of Utah. It is not even close anymore. It also used to be the single biggest taxpayer in the State of Utah, not only in Salt Lake County, but in State revenue as a single employer. That also is not true any more.

Mr. Chairman, if this were simply another low point in the mining industry's economic cycle, then I would not be nearly as concerned as I am today. But the reality of today's situation is not a mere glitch in the cycle, but a severe threat to the industry's future. The copper industry is in trouble. The vultures are circling overhead waiting for it to die. That is the reality of the situation in my State.

The economic situation I have been describing is, in my opinion, at least in part attributable to the insensitivity to the economy of the United States, and other nations of the developed world, which has been exhibited by the World Bank and the various regional development banks around the world.

Since 1975, major copper producers such as Zambia, Zaire, Peru, Chile, and Mexico, have gone all out to expand the production of their copper mines. I would have no problem with such a policy if the expansion had been financed in the international financial marketplace at market rates. That was, however, not the case.

It should be irritating to every citizen of the United States when during some of this period of time, they were going out looking for mortgages with which to buy homes, and they were having to pay 15 to 17 percent for 30-year fixed rate mortgages while these international development banks were making loans at less than 10 percent.

The expansion was heavily subsidized by below market interest rates from the World Bank and other regional development banks. That policy of subsidies and support has continued full bore even as U.S. copper mines were shutting down and tens of thousands of U.S. copper miners were losing their jobs.

Indeed, aggravated by the recent international debt crisis, that subsidy continued despite the fact that many of those mines were being operated at below the cost of production. I am sorry to say that even with the current world overproduction, which has virtually decimated the U.S. copper industry and taken thousands of workers in my home State from productive labor to unemployment insurance and welfare, those same development banks are almost certain to be asked to finance a score of new facilities over the next decade.

Mr. Chairman, I think you will agree that the development strategies pursued by the World Bank and the regional development banks—at least with regard to world copper production—are absurd and counterproductive. Not only has it helped to devastate a highly productive industry in the western United States, at the same time, it has done a serious disservice to the copper-producing states of the less developed world.

The projected demand for copper simply does not justify the sorts of investments which have been encouraged—indeed, underwritten by these international development institutions. We are not help-

ing Zambia or Zaire, nor are we helping Chile or Mexico to build productive economies by subsidizing the construction of huge uneconomic white elephants in their midst. Instead, we are pushing them in the direction of internal subsidies and ever spiraling debt as they try to repay the funds borrowed for these foolish projects.

Mr. Chairman, I think that it is time for us to take a serious look at the development strategies pursued by the World Bank and its sister regional development banks. It is time to consider whether those banks and the U.S. support for those banks are in the long term in the economic interest of the United States if they should continue to fund and subsidize the expansion of new construction of copper mines and other commodities which clearly are—and are likely to remain—in overproduction for the foreseeable future.

Along those same lines, we might want to consider whether an element of conditionality should be introduced into the policies of the International Monetary Fund's Compensatory Financing Facility, which currently helps to shield the overproducers from the harsh economic consequences of their acts.

Mr. Chairman, I say this and make these remarks as one of those who led the fight last fall for a quota increase for the IMF. I still believe that it was absolutely necessary to save the international monetary system, and I would do the same thing over again. But on this side issue of the other development banks subsidizing these projects into overproduction, I want the message to go out loud and clear, despite the difficulties of the International Monetary Fund and the problems we have in the private sector international financial system, and the threat to some of our own banks, that enough is enough.

Mr. Chairman, I will say that as the chairman of the Senate Banking Committee, unless some of these policies are altered, the next time they want a quota increase, I won't even hold hearings on it in the committee.

Mr. Chairman, I thank you for the opportunity of testifying today.

Senator MATHIAS. Thank you, Senator Garn.

Are you going to be able to remain just a few minutes?

Senator GARN. I can stay for a few more minutes.

Senator MATHIAS. There are one or two questions that I think we need to get on the record.

Senator Bingaman.

STATEMENT OF HON. JEFF BINGAMAN, A U.S. SENATOR FROM NEW MEXICO

Senator BINGAMAN. Thank you, Mr. Chairman. I have 4 or 5 minutes of statement that I would like to make, if I could.

I want to thank you for holding this hearing to focus attention on this very serious problem with the domestic copper industry.

I want, of course, to thank Senator Domenici for the bill which he has introduced, which I am happy to cosponsor, trying to deal with this very difficult problem.

It is clear that copper is an important strategic resource for this country, and that the domestic copper industry is facing the worst crisis in at least the last 50 years. The U.S. copper industry's oper-

ating losses in 1983 were more than $318 million. Over 42 percent of the 1979 work force is now unemployed.

Copper production in my home State of New Mexico dropped from 164,000 to 67,000 metric tons between 1979 and 1982. The total dollar value in the State during those years fell from $337 million to $97 million. Employment, particularly in my home county of Grant County, plummetted by 37 percent, from about 3,500 employees to 2,248 employees during that same period. Only 9 of the country's largest 25 mines were operating at the end of 1983.

I think these statistics demonstrate very clearly the seriousness of the problem facing the domestic copper industry. Dramatic changes have taken place recently in the structure of world copper production. As Senator Domenici said, 40 percent of the free world's copper mines are presently under the ownership or effective control of the governments of less developed nations. These countries have operated at maximum production in order to maintain full employment and to obtain foreign exchange.

What are the consequences of these policies? They are clearly, first, that world prices have been driven down by the increased supply from this overproduction. The second consequence, obviously, is that our domestic industry has been forced to curtail its production to match this reduced worldwide demand. Thus, our domestic industry has borne a greatly disproportionate share of mine shutdowns and worker layoffs.

The situation is made much worse by the fact that the United States is currently helping to finance overproduction in these less developed countries, as Senator Garn and Senator Domenici mentioned, through this Compensatory Financing Facility of the IMF.

In my opinion, it simply does not make sense to allow this activity to continue, and S. 2524 is a good solution to the problem. It would require the country seeking assistance through the CFF to enter into an agreement not to add further excess capacity and to take other necessary action to stabilize the market for this commodity. This is one of the most important features of the bill in my view.

Another feature which I believe needs to be focused on is the provision that would require the President to take some action when an industry does sufficiently prove its case for relief. The bill retains the President's existing options, except the option to do nothing. Unfortunately, this was the case in 1978 when President Carter chose to take no action regarding the copper industry's request for relief. This would require the President to take affirmative action in some form.

On June 14, the ITC unanimously agreed that the domestic copper industry had suffered injury by foreign imports and that some relief should be granted. The President must now make his determination as to what action to take. I have written to the President and encouraged him to take prompt and effective action.

In the letter I wrote, I encouraged the President to impose quotas, but to allow 90 days before they are put into effect to see if a negotiated international agreement could be reached by which major foreign copper producers, that have been flooding the U.S. market, could agree to a multiyear cutback on production which

would be sufficient to bring the world copper supply into line with demand. This would permit a recovery of the depressed world copper price, which would allow the domestic copper industry to compete in a fair market environment. But only through an international agreement of this nature can a lasting solution be reached. It is time to put into law mechanisms by which we can help restore a proper demand and supply relationship in the world copper market.

This country must take action to restore a healthy and vigorous copper industry that is vital to our Nation's industrial well-being and equally imperative to our national security. I strongly believe that S. 2524 provides mechanisms to help ensure a realistic and balanced world market for copper. I encourage this subcommittee's support for that bill.

Thank you very much for the opportunity to testify.

[Senator Bingaman's prepared statement follows:]

PREPARED STATEMENT OF HON. JEFF BINGAMAN

Mr. Chairman, I would like to thank you for holding this hearing to focus attention on the significant problems facing our domestic copper industry at this time. I believe the bill the Committee is considering today, S. 2524, the Copper and Extractive Industries Fair Competition Act of 1984 provides a common sense approach for dealing with these problems. I commend Senator Domenici for introducing this legislation and I am pleased to be a cosponsor of it. S. 2524 is important for the thousands of copper workers who have lost their livelihood over the past few years as well as for workers presently employed in the depressed industry. The bill is also essential if this country is to have a strong domestic copper industry in the years ahead.

Copper is an important strategic resource needed for critical defense production. The Strategic Materials Stockpile Act, which is intended to maintain our resource needs in the event of an emergency, includes copper as a stockpiled material. The Act also requires that our domestic industries for critical materials be maintained. At this time however, the future of the copper industry is seriously threatened.

The facts are clear. The copper industry is facing its worst crisis in 50 years. The U.S. copper industry's operating losses in 1983 were more than $318 million. About 42 pecent of its 1979 workforce is now unemployed. Copper production in my State dropped from 164,235 to 67,693 metric tons between 1979 and 1982. Total dollar value in the State during these years fell from $337 million to $97 million. Employment plummeted by 37 percent, from 3,503 employees to 2,248—a loss of 1,255 jobs. Only 9 of the country's largest 25 mines were operating at the end of 1983. Copper production in some States, such as Montana, has completely ceased. Copper prices have fallen well below the costs of production for all but a handful of mines. These statistics demonstrate very clearly the seriousness of the problems facing our domestic copper producers. These facts are supported by the recent finding of the International Trade Commission that unfair competition from foreign copper producers had resulted in serious harm to the domestic copper industry and relief is warranted.

Dramatic changes in the past few years have significantly altered the structure of the world copper industry and led to the current plight of the U.S. industry. Forty percent of the free world's copper mine capacity is under the ownership or effective control of the governments of less developed nations. These countries have operated at maximum production in order to maintain full employment. What are the consequences of these ill-guided policies? World prices have been driven down with the increased supply from overproduction. Our domestic industry is forced to curtail production to match reduced worldwide demand, and thus, bears a greatly disproportionate share of mine shutdowns and worker layoffs.

This situation is exacerbated by the fact that the United States is currently helping to finance overproduction in these less developed countries through the Compensatory Financing Facility (CFF) of the International Monetary Fund. This special financing has allowed countries which subsidize their copper exports and flood the market to ignore the laws of supply and demand. The CFF makes assistance available to countries that experience an export earnings shortfall because of falling world prices. Under the present system, these countries have been allowed to main-

tain, and even increase, their production of copper although there was tremendous over supply in the world market. Because of their increased production the price has remained at extremely low levels. The CFF is, in essence, subsidizing overproduction of our competitors which can only hurt U.S. producers with continued depressed world copper prices.

In my opinion, it simply does not make sense to allow this activity to continue. S. 2524 is a good solution. It would require countries seeking assistance through the CFF to enter into an agreement not to add further to excess capacity and to take other necessary action to stabilize the market for the commodity. This is one of the most important features of this bill.

I also strongly support other provisions of the bill which would require the Secretary of the Treasury to notify the Congress and the President every 90 days of applications filed with the various international banks for projects that would increase the capacity to produce surplus commodities such as copper. S. 2524 also would require that Congress be notified when primary producers of copper apply for IMF assistance. This would allow Congress to suggest appropriate conditions for receiving assistance. The bill would reform the procedures by which U.S. industries must prove that they have been the victim of unfair foreign trade practices by making them consistent with the standards set by GATT (General Agreement on Tariffs and Trade). This would help make it easier for U.S. industries to prove their case and receive the necessary relief. Finally, the bill would require that the President take some action when an industry does sufficiently prove its case for relief. The bill retains all the President's existing options except the option to do nothing. Unfortunately, this was the case in 1978 when President Carter chose to take no action regarding the copper industry's request for relief. Requiring the President to take affirmative action is essential.

On June 14, the ITC unanimously agreed that the domestic copper industry had suffered substantial injury by foreign imports as defined under Section 201 of the Trade Act of 1974. On June 27, the commission recommended trade relief be granted. The President must now make his determination of what action to take. I have written the President and encouraged him to take prompt and affective action. As I wrote in my July 25, 1984 letter to the President, "While I do not generally favor import quotas, in the case of this hard-pressed industry, I believe they may be unavoidable." A copy of my letter is attached to my testimony. Also in my letter, I encouraged the President to impose the quotas but to allow 90 days before they are put into effect to see if a negotiated international agreement could be reached by which major foreign copper producers that have been flooding the U.S. market could agree to a multi-year cutback in production sufficient to bring world-wide copper supply and demand back into balance. This would permit a recovery of the depressed world copper price, which would allow the domestic copper industry to compete in a fair market environment. Only through an international agreement of this nature can a lasting solution be reached. I am sorry more serious efforts have not been made, prior to reaching the point where the U.S. copper production is threatened. It is time to put into law mechanisms by which we can help restore a proper supply-demand relationship to the world copper market. This country must take action to restore a healthy and vigorous copper industry that is vital to our nation's industrial well-being and equally imperative to our national security. I strongly believe that S. 2524 provides those mechanisms to help ensure a realistic and balanced world market for copper. I encourage your support for this bill.

Thank you for the opportunity to testify.

Attachment.

U.S. SENATE,
Washington, DC, July 25, 1984.

The PRESIDENT,
The White House, Washington, DC.

DEAR MR. PRESIDENT: As you know, the U.S. copper industry is in a deep depression—the worst in the last 50 years. As a senator from a state with an important copper industry, I am concerned. Relief for the industry is extremely important, not only to my state of New Mexico, but to other copper producing states as well.

The situation has caused great personal tragedies and hardships to many copper workers and their families. And as the industrial base of the domestic industry continues to erode, your help has become essential.

The U.S. copper industry's operating loss in 1983 was more than $318 million. About 38% of its 1979 workforce is now unemployed. Copper production in my state dropped from 164,235 to 67,693 metric tons between 1979 and 1982. Total dollar value of production in the state during those years fell from $337 million to $97 mil-

lion. Employment plummeted by 37%, from 3,503 employees to 2,248—1,255 jobs. It is not difficult from these figures to see the hardship it has caused.

The situtation naturally prompted the domestic copper producers to petition the International Trade Commission for relief under Section 201 of the Trade Act of 1974, alleging that foreign copper imports are causing serious injury. On June 14, the five commissioners unanimously agreed that the U.S. copper industry had indeed suffered substantial injury by foreign imports. On June 27, they recommended trade relief. Two commissioners supported import quotas, two favored tariffs, and one was undecided.

It is now in your hands, Mr. President. In light of the ITC recommendations, I urge you, on behalf of the unemployed copper workforce in my state and throughout the country, to take prompt action to help solve this problem.

Import quotas are one possible course of action now open to you. While I don't generally favor import quotas, in the case of this hard-pressed industry, I believe they may be unavoidable.

Perhaps a better solution, of more direct help, would be a negotiated international agreement in which major foreign copper producers that have been flooding the U.S. market could agree to a multi-year cutback in production sufficient to bring worldwide copper supply and demand back into balance. This would permit a recovery of the depressed world copper price, which would benefit not only the domestic copper industry, but foreign copper producers as well.

The imposition of quotas could serve as a catalyst to good faith negotiations. You may wish to consider imposing the quotas and immediately suspending them for a 90-day period pending the outcome of negotiations.

I strongly recommend that you take relief action. If I may in any way be helpful to you in the matter, I stand ready to assist.

Respectfully,

JEFF BINGAMAN.

Senator MATHIAS. Thank you, Senator Bingaman.

If I may, I will address just a couple of questions to Senator Garn first.

I want to say that his position is crucial, as far as legislation affecting the International Monetary Fund and the World Bank, and the international development banks is concerned.

I would like to express my appreciation for the kind of broad leadership he provided, which was very significant and very important in the year that has just passed and which has been a dangerous year, a dangerous year for the world, a dangerous year for the banking system, and a dangerous year for international economic institutions in general. I listened very carefully to what he said with respect to the international financial institutions.

Let me pose this question to you, Senator Garn. If we cut off IMF funding to copper producing nations—you haven't suggested that specifically, but I am just posing it as a hypothetical question. If we cut off a country like Peru, let's say, which is in a desperate condition, with 50 percent unemployment, from IMF funding, might that not, in desperation, drive them to produce more copper at even lower prices because that is the only way they might perceive that they could earn foreign exchange?

Senator GARN. I don't know how they could expand production without additional financial support to expand their facilities. Let me make myself very clear. I have not hinted at a total cutoff. What I said in my statement was on the subsidies.

Kennecott, one of their problems has been our own internal problems of EPA requiring pollution control devices, which I would agree are needed, but these foreign producers don't have that same imposition of controls by their governments.

Senator MATHIAS. So that becomes an economic, anticompetitive factor.

Senator GARN. That is correct. But the point I would make, when we are talking about subsidized loans, I am sure Kennecott would love to have some subsidized loans in order to put in the facilities to meet all of the requirements for removing that last 5 percent of pollution that they are required to do. That is where the unfairness really comes in, Mr. Chairman, of the subsidized loans.

It gets back to my opposition on the Yamal Pipeline, which is a different issue. The biggest problem was not with the Russians building that line. I had no problem with selling Caterpillar equipment to them. Where I had real problems is when we were told that it was not economically feasible or commercially feasible to build a U.S. gas pipeline from Alaska to the United States because of high interest rates, and then we had loans being made to the Soviet Union at as low as 7.8 percent.

All I am talking about is that the copper industry in this country is willing to compete on a fair basis. I am not saying that there should be no loans to these countries. I am talking about the big subsidies they are given that are not fair in the competitive race for money. I just think that we ought to have fairness in these loans.

Senator MATHIAS. As you are very well aware, the IMF does not engage in project funding. It simply provides general balance of payment support. The World Bank, on the other hand, of course, does get into long-range economic development which does identify projects.

Would you favor a change in the Funds lending practices that would require it to focus on particular programs, in other words, to make a judgment as to particular industries within the country?

Senator GARN. Senator, you are correct, they don't make project loans, and I want to correct any misunderstanding from my own remarks where I said that we had joint jurisdiction. I have no jurisdiction in the Banking Committee over the World Bank, or the other regional development banks. I have jurisdiction over IMF, where we share the jursidiction.

Senator MATHIAS. You have plenty of jurisdiction over it, don't be modest about that.

Senator GARN. My problem with IMF is in the area of the compensation, and that is where I think we need to make some changes. No, I do not want the IMF to get into a project on a project lending basis. I think their role should remain where it is. Where they are causing problems is in the area of the Compensatory Financing Facility.

Senator MATHIAS. The World Bank is, of course, a different question and that is an area where you could look to economic development in diversified fields, and not simply plowing more resources into the areas where there is already overproduction in the world.

Senator GARN. That is correct.

Senator MATHIAS. I think we would certainly agree on that.

I think that it is very useful to have your participation here, particularly because of the dual role that you play in this. I am very grateful to you.

Senator GARN. Thank you very much, Mr. Chairman.

Senator MATHIAS. Let me turn to Senator Domenici and ask him this question.

There is a general agreement that there is overproduction of copper in the world, and that that is the root cause of the problem. It is intensified, I suspect, as in the case of other imports, by the exchange rate, the fact that the dollar is very high, very hard, and most other currencies are very depressed. What would you say as to the copper industry specifically on that question?

Senator DOMENICI. I think that it is having a very adverse effect, I also believe, because it is too high. On the other hand I don't know how we can fix that very easily. But I would also suggest, last night when I was looking at whether we are really competitive, because they frequently talk about our industry as being noncompetitive, I noted that a number of the producers of copper devalue almost regularly in an effort to change their bookkeeping costs, which further exacerbates the problem you have just described.

Senator MATHIAS. The other day, when the automobile industry was sitting in the seat where you are sitting, I asked them what they felt, on a scale of 10, the factor of exchange rates was as far as their import problems were concerned, and they said, "about 5," 5 out of 10. In other words, about half of the automobile import problem they attributed to exchange rates.

I asked the steel industry the same question. They also said, "about 5." I have talked recently to some other industries that are affected by imports, and they assigned as high a factor as 9 out of 10 to the exchange rate. Would you want to quantify that, or would you want to leave that to one of the industry representatives who is here?

Senator DOMENICI. We do have an industry representative, and I would prefer to leave it to them. I am sure that they can quantify it.

Senator MATHIAS. The ITC has ruled that the substantial cause of the domestic copper industry's problem is imports. But as far as I know, the ITC has not come down with the same kind of unanimity on what to do about it.

Senator DOMENICI. That is correct.

Senator MATHIAS. What would you recommend that we do about it?

Senator DOMENICI. Mr. Chairman, before I answer that, let me ask if you would make a couple of things a part of the record for me. There is a distinguished member of the State house of representatives who could not appear. We will have one, but Representative Murray Ryan from New Mexico could not be here, and would ask that his statement be made a part of the record.

Senator MATHIAS. Representative Ryan's statement will be part of the record.

[Representative Ryan's prepared statement follows:]

PREPARED STATEMENT OF HON. MURRAY RYAN, A MEMBER OF THE STATE OF NEW MEXICO HOUSE OF REPRESENTATIVES

Mr. Chairman and Members of the Subcommittee: My name is Murray Ryan. I am a resident of Silver City, Grant County, New Mexico. My place of birth is Central, New Mexico a small town about 6 miles from where I now live.

For the past 16 years, it has been my special honor to serve in our State legislature, as a member of the House of Representatives.

I appreciate the opportunity to provide for the record a brief statement on the problems facing the domestic copper industry and on a bill recently introduced by Senator Pete Domenici, S. 2524, the "Copper and Extractive Industries Fair Competition Act of 1984".

For most of this century, mining has formed the base for the economic life of Grant County. The Nation's largest copper producers, Kennecott and Phelps Dodge, both have extensive copper operations in New Mexico. In 1982, they employed over 3,000 workers in the State; and, as such, are closely aligned with the economic health of many of the small mining communities and towns in New Mexico. Over the years, mining company employees and other residents have had an intrinsic, almost absolute confidence in the vital strength of the copper industry in New Mexico. A job at one of the copper companies was considered secure and permanent, and was attractive to ambitious young people.

Almost overnight, the tranquility and stability in the copper industry were absolutely devastated—and alarmingly—frighteningly—the shock waves and jolts have not ceased.

The domestic copper industry is battling for its very survival. Almost 40 percent of all U.S. copper workers have lost their jobs in the last 5 years. Fifteen of the Nation's 25 largest copper mines are closed, while many others are partially closed or operating below capacity. Domestically mined copper production has decreased by 30 percent since 1979, and copper prices are, and have remained, near their lowest level in real terms in this century.

This industry situation has had a devastating effect in New Mexico. In 1982, employment at the two largest mines was: Kennecott 1,769 and Phelps Dodge 1,361. These mines were closed because of the adverse copper market, and employment today is: Kennecott 977 and Phelps Dodge 1,115. The cloud of a total shut-down of the copper industry in New Mexico continues to hover constantly.

I have personally seen many tragedies:

Families broken up—economic hardship being a key cause for divorces.

Mortgaged homes foreclosed—effectively wiping out life's savings—and, more sadly important, dreams turned to shatters, shards and cinders.

Hopes for higher education for so many of our alert, intelligent young people—postponed—probably beyond recapture.

Proud, capable, decent wage earners forced to accept food stamps, rent subsidies, and other last-resort assistance.

In recent months, we have read about the strong economic recovery. We are happy for those areas of our country which enjoy the immediate economic and social improvement. The statistics are most encouraging. Sadly, the U.S. copper business has continued to go in the opposite direction. It is worse off now than it was 2 years ago.

A careful analysis of the worldwide copper situation shows that the historic low price is being caused by copper oversupply. The root cause of the oversupply problem, in turn, is overproduction by foreign government-owned copper producers, most of which are subsidized. What these foreign government-owned copper producers have failed to do, and what is essential for them to recognize and follow through on, is their responsibility to tailor production levels to the requirements of the world copper market.

In fact, in response to a softening of copper demand, the U.S. copper industry cut back production over 40 percent from 1979 levels, whereas foreign production of copper has increased during the same time period. This has shown itself in the fact that copper imports to the United States have increased 140 percent since 1979. As this Committee knows, the International Trade Commission has reviewed all the facts in this matter and recently reached a unanimous 5 to 0 decision that the domestic copper industry has been substantially injured from foreign copper imports.

A basic and strategic industry, the extraction and processing of copper ore, is in serious jeopardy. For the short run, a simplistic reaction might be—"So what." For the long, tortuous road ahead, in a world of continuing international tensions and crises, the survival and strength of a domestic copper industry is essential to the security of our country. Do we have the absolute assurance that the flow of copper from Africa, and from South America, will never be interrupted? Members of this Committee are much better prepared and qualified than I to answer that crucial question. As for myself, I can see only uncertainty.

What we seek is your favorable consideration of a short run means of assisting the Nation's copper mining industry. Certainly, policies of the IMF and other international lending organizations in subsidizing and encouraging foreign production with U.S. taxpayer dollars during a period of recession—to the drastic detriment of our own companies—must be reviewed and changed. Financial assistance from such

organizations or the country's government itself, on attractive terms unavailable to domestic producers, is killing the U.S. copper industry.

Domestic copper producers are willing, and also determined, to compete worldwide. They do need a breathing spell to adjust to the harsh non-free market conditions that prevail in the worldwide copper market today. Efficiency and productivity of domestic copper producers are vastly improved, and this trend will go on—unless current market circumstances continue and demand a total shut down of domestic production. This can be avoided by your assistance in passing legislation giving our domestic copper industry this needed breathing spell.

We believe the bill introduced by Senator Domenici, S. 2524—the Copper and Extractive Industries Fair Competition Act of 1984, is legislation that is critically needed now to help save the domestic copper industry. It addresses the copper oversupply problem by making needed and beneficial changes in the IMF's Compensatory Financing Facility, it alerts Congress to requests for copper-mining project assistance prior to subsidized financing being granted, and works to remove government subsidization, along with other important changes.

The determined, persevering efforts of New Mexico Senator Pete Domenici are recognized and appreciated by us New Mexicans who live in mining areas. He has never given up in his efforts to see that our copper industry continues to survive as a healthy, vibrant force. He senses the immeasurable importance to our Nation in having a secure source of raw materials. Also, he wants employment success, opportunity and progress for us, his friends and constitutents in the State of New Mexico. To Senator Domenici we say—Thanks. We know you understand—you care—and you are fighting your hardest for us. We hope that this Committee will also see the desperateness of our plight and provide a viable mechanism to help restore the U.S. copper industry.

Thank you for the opportunity to present my views on this important matter to the residents of New Mexico.

Senator DOMENICI. I have two pieces of paper that helped me answer the question, so I would like them in the record. I have before me "The Effect of Price Rise on Prices of Selected Consumer Products," and I have on that the effect on a car, an average house, a dishwasher, a refrigerator/freezer, and a room air conditioner, assuming a 10-percent reduction in world copper production, which would cause a 19-percent increase in copper market prices. I would ask that that be made a part of the record.

Senator MATHIAS. It will be part of the record.

[The material referred to follows:]

EFFECT OF COPPER PRICE RISE ON PRICES OF SELECTED CONSUMER PRODUCTS

A 19 percent increase in copper market prices, estimated to result from a 10 percent cut in copper mine production by all CIPEC countries, would have the following effect on prices of the following consumer products:

	Increase	Percent
Average automobile	$4.31	0.04
Average house	43.69	.05
Dishwasher	.32	0.09
Refrigerator/freezer	.62	0.08
Room air conditioner	1.34	0.03

Senator DOMENICI. For purposes of repetition, the average automobile would be affected by the suggestion I am going to make in response to your question by $4.31 cents, and the average house, and this average is eastern and not western, an average $90,000 house would be affected $43 or five-tenths of 1 percent, and so on.

The second sheet I would like to make a part of the record that is part of my answer is the "Actual 1983 World Copper Mine Production and Estimated Relative 1984 Production Costs." I would

like to just tick off a couple: U.S.A. 72 cents a pound; Canada, 74; Zambia, 80; Zaire, 70; Chile, 50; and so on.

The reason I submit that, the weighted average cost of 80 percent of the world copper production is 71 cents; the U.S.A.'s is 72. Chile is producing its richest ore, taking out as fast as they can, and that is where that 50 cents comes from, and that won't last very long.

[The material referred to follows:]

The price of copper August 1, 1984, 56¢ a pound. The average price this century, adjusted is $1.15.

ACTUAL 1983 WORLD COPPER MINE PRODUCTION AND ESTIMATED RELATIVE 1984 PRODUCTION COSTS

Country	Mine production short tons times 1,000	Percent of Western World	1984 estimated production cost (cents per pound)
Chile	1,372.5	20.4	50
United States of America	1,152.7	17.1	72
Canada	688.9	10.2	74
Zambia	566.1	8.4	80
Zaire	553.9	8.2	70
New Guinea/Australia	493.6	7.3	65
Europe	359.4	5.3	65
Peru	347.0	5.2	58
Philippines	299.2	4.4	75
South Africa	226.0	3.4	60
Mexico	210.5	3.1	75
Other	470.2	7.0	80
Average	6,740.0	100.0	68.7

Note.—Weighted average cost of 80 percent of world production (excluding Chile) equals 71.3 cents.

Senator DOMENICI. What I will do, I will recommend to the President very shortly, I would say to the chairman, I think he should immediately direct that the U.S. Trade Representative initiate negotiations with Chile, Zambia, Zaire, Peru, and the other foreign producers, whichever other ones they deem appropriate.

The goal of these negotiations should be a temporary 5-year agreement pursuant to which these countries would reduce production from their current excessive levels sufficient to correct the artificial depression of world copper prices, and agree to changes in production levels over these 5 years that will track changes in world copper consumption.

In the event that these negotiations are not successful and are not completed by the September 14 date, the deadline for this decision on the ITC ruling, then I would determine, as required by statute, that relief for the U.S. copper industry is in the national interest, No. 1. I would urge that the President find that the most desirable form of relief is an agreement between the nations as described above, and I would order that negotiations continue for 90 days. Then, if these negotiations don't succeed, during that 90 days, which would be the period of time that I think you would get some pretty good indication, then it would seem to me that the United States should be given a 5-year breathing span.

From where I am right now, I would say that if these negotiations fail, import quotas appear to be the only remedy. But I think the President does not have to impose the quotas, even conditionally. I think he pursues the 90-day mandate on negotiations, deferring the imposition of relief, and clearly if there is defiance, noncooperation, I think he can reserve his options at the end of 90 days to put the quotas on or to put a tariff on.

Senator MATHIAS. That sounds like the sound policies of Theodore Roosevelt, to speak softly and carry a big stick.

Senator DOMENICI. I think it would work. As a matter of fact, I thank you for the hearings today because I hope those countries understand that this is no longer things that we are going to let pass by. There are some very serious minded Senators here that are just not going to let this continue.

Senator MATHIAS. But your initial approach, I think, is a reasonable one. You want to gather around the table and work out some reasonable solution to a problem that everyone shares.

Senator DOMENICI. In my testimony, I said to you that I believe you will hear a witness that could be there as an expert, or get one like him if he is from the industry. I think he is an expert. I think they could convince some of those countries that they would make just as much money to pay off their indebtedness at a reduced rate than they are in this flurry of "produce more at a loss so that we can borrow more, so we can get more compensatory money to keep current with the banks."

Senator MATHIAS. I have just one more question for you, Senator Domenici. Under the bill which you have introduced, there is an objection raised by some that it would require IMF customer countries to submit to excessive IMF interference in their domestic policies. How would you respond to those objectors?

Senator DOMENICI. I have no concern about that problem. The IMF, whether we like it or not, has a magnificent man running it and we ought to be very thankful that we have him around. He is doing a great job.

Senator MATHIAS. I say, amen to that.

Senator DOMENICI. He is interfering with their internal affairs daily, and in spades. [Laughter.]

He is, in fact, too powerful, when it comes to looking at it in those countries. He is their budget director, and if that is not interference, I don't know what is. I don't see how he has any other way to do it. He is telling them to be fiscally restrained, or he can't keep the money flowing, and that is pretty big interference, but I think it has to be. My answer is the same on this.

Senator MATHIAS. Senator Bingaman, just to illustrate the complexity of the problem that we have here, and the kind of difficulties that we have been facing. I had a telephone call yesterday from a Maryland constituent, he is in the copperwire business, and he had heard of the hearings that I scheduled on this very important problem of copper imports. The concern that my constituent expressed to me, in almost the same terms of urgency that your constituents have been talking to you, was that if the price of copper goes up, his company will go out of business.

Have you made any survey of this aspect of the problem? What will it do to manufacturing companies that use copper in their

manufacturing process in terms of their profitability to have an increase in copper prices?

Senator BINGAMAN. Mr. Chairman, I don't have some of the expertise which perhaps some of the later witnesses will have on the matter. My thinking would be that if the world price of copper goes up, which is what the long term goal is here, that New Mexico or U.S. producers of wire or any type of fabricated product would not be at any kind of disadvantage relative to the rest of the world.

Now, relative to noncopper as a commodity, there could be an argument made, but I don't believe that that is a major threat. I don't think that you have fiber optics and various things imminently threatening the demand which exists for copper. So I don't see that an increase in the world price would put your constituent at that kind of disadvantage.

Senator MATHIAS. I think that that is a thoughtful answer. In other words, the manufacturers in Europe, Japan, East Asia and other places, would all be paying the same increased price for their raw materials, and so all ships would rise on the same tide.

Senator BINGAMAN. Mr. Chairman, I just wanted to make a comment on your earlier question to Senator Domenici about what should be done, because I have a slightly different version that I refer to in my testimony.

I think, obviously, the solution is negotiations among the copper producing countries to bring production into line with demand. I think that the proper course might be, though, and this is what I have suggested to the President in my letter, would be to go ahead and announce that he is imposing quotas effective 90 days from now if an agreement has not been reached by that time. He would specify exactly what the quotas would be, and what the circumstances would be. Then, of course, he would still have the power to suspend those for that 90-day period, and then indefinitely if circumstances develop which justified keeping them in suspense.

To cite the old quotation, "There is nothing that focuses the mind like knowing you are about to be hanged." I think that would perhaps impress upon them what the remedies are that will be imposed if an agreement is not reached. It might be that their enthusiasm for negotiations would be increased that much more if he would actually exercise some authority immediately at the time that he calls for those negotiations.

Senator DOMENICI. Mr. Chairman, might I comment on that?

Frankly, Jeff and Mr. Chairman, nothing would please me more than for that to happen. So, obviously, I support it. The problem is that I have come to the conclusion that that won't happen, and I think that most of the fabricators and industry people that have been meeting and talking about it have come to the conclusion that it won't happen.

The reason is that the answer to your man, the man that called you from the State of Maryland, is not the same answer that we could give him if they negotiate as suggested. If, as a matter of fact, the quotas are imposed, the fabricators do take the position strongly that they will be paying a higher price than their competitors.

Senator MATHIAS. A higher price in the United States.

Senator DOMENICI. By definition. That will not only mean, will they have it more difficult to sell their product, but they maintain that their competitor in Europe, or wherever he is——

Senator MATHIAS. They won't be feeling the quota impact.

Senator DOMENICI. They won't have the quota.

Senator MATHIAS. In fact, they will get the other side of it.

Senator DOMENICI. So, while I wish and hope that it would occur, and support, I am trying to find a way to get the same results, leave the same hammer over their heads, but not impose it while the negotiations occur. I think that there will be lawyers who will tell us that he can say, "negotiate, and in 90 days, if you have not succeeded, I will exercise whatever rights I have."

If we can get that, we will attempt to convince the President, based on this information, that if they were to negotiate a 10 percent curtailment, the effect would be very limited on the American consumer and on inflation as evidenced by the documents that I interposed in the record.

Senator MATHIAS. Thank you, gentlemen, very much.

Senator DOMENICI. Thank you.

Senator MATHIAS. Unfortunately, I have been watching the clock, and I see that our time is slipping away from us. So I am going to have to impose a time limit on witnesses. I would suggest that you try to summarize your statements in about 5 minutes, if you can, and your full written statements will be printed in the record.

Our next witness, representing the administration, will be Mr. George Hoguet, the Deputy Assistant Secretary for International Affairs.

I am sorry to curtail your testimony, Mr. Hoguet, but you understand the problem, I am sure.

Mr. HOGUET. Thank you, Mr. Chairman. I will try to be very brief.

Senator MATHIAS. We will ask for the lights to be turned on. We have a traffic system here.

Senator Domenici, would you like to join the committee here.

Senator DOMENICI. Mr. Chairman, I am scheduled to appear before the Committee on Committees, and I am going to do that now. But if I finish quickly, I will come back to join you. I appreciate your invitation.

Senator MATHIAS. You are very welcome to join the committee.

Mr. Hoguet.

STATEMENT OF GEORGE HOGUET, PRINCIPAL DEPUTY ASSISTANT SECRETARY FOR INTERNATIONAL AFFAIRS, DEPARTMENT OF THE TREASURY

Mr. HOGUET. Thank you, Mr. Chairman. I will try to be brief.

I appreciate the opportunity to present the views of Treasury on S. 2524. I will confine my remarks to those portions of the bill dealing with the IMF. I believe the USTR will submit a statement to comment on the portions of the bill dealing with import relief.

Senator MATHIAS. As you know, we do have a traffic system here, and it is for timing purposes. You now have the green light.

Mr. HOGUET. Yes, sir.

Before discussing this bill, I would like to emphasize that the administration is aware of the very serious problems now facing the U.S. copper industry, and we are sympathetic to the difficult situation in which the domestic producers now find themselves. However, there are several reasons why the Treasury Department opposes this bill.

First, we do not believe that the bill would, in fact, address the very real problems of the U.S. copper industry. Second, the bill is based on a misperception regarding the role and the operations of the IMF and the Compensatory Financing Facility. Third, implementation of the provisions of the bill would create serious distortion in international trade and contribute to inflationary pressures. Finally, the bill would weaken the IMF, the institution at the center of U.S. efforts to deal with LDC debt problems and restore a healthy and growing world economy.

While I do not believe that this bill would be an effective way of addressing the problems of the U.S. copper industry that Senator Domenici has pointed out, we do have the 201 case before us. The administration is in the process of reviewing the International Trade Commission's recommendations regarding the copper industry's 201 petition, but has made no decision on options or a proposed recommendation.

Our belief that the IMF is not among the problems of the U.S. copper industry is based on its essentially monetary character. IMF financing is intended to facilitate adjustment by providing borrowing countries with an extra margin of time and money which they can use to bring their balance of payments back into reasonable balance in an orderly manner, without being forced into abrupt and more restrictive measures to limit imports. Although money is indeed fungible, it is not possible to say that IMF lending finances a particular sector.

The Compensatory Financing Facility is one of several IMF financing facilities. In the last 5 years, CFF lending has accounted for about 30 percent of total IMF lending. In the most recent fiscal year, CFF drawings accounted for roughly 11 percent of total Fund lending.

At the time of the last IMF quota increase, the administration worked hard to secure agreement to reduce access to all the IMF facilities as a percentage of quota, including the CFF, to reflect both the new higher quotas and the necessity to husband scarce resources. Several criteria govern the use of the CFF, and in particular eligibility to draw CFF resources is based on total export shortfalls, not just one commodity.

I should also like to emphasize that the CFF does not provide unconditional finance. All IMF facilities have two major things in common. They are directed to clear balance-of-payments need, and they are all linked to the pursuit of effective adjustment policies in borrowing countries.

For drawings from the CFF up to 50 percent of quota, the IMF must be satisfied that the borrower will cooperate to find a solution to its balance-of-payments difficulties. For drawings up to the full amount available, the IMF must be satisfied that the country is cooperating with the Fund by pursuing appropriate economic policies. In fact, Peru, Chile, Zambia, and Zaire's CFF programs are ac-

companied by standby programs which contain strict conditions on economic performance.

I would also like to emphasize that the IMF is one of our best allies in the fight against distortions to the operation of free markets, and the Treasury is implementing the provisions of the last quota increase bill with regard to trade distortions in developing countries.

By facilitating the resumption of sustainable growth and liberalization of trade policies, Fund programs benefit U.S. exporters and investors in high debt developing countries. Since the beginning of 1982, nearly 80 percent of all IMF programs have provided for the reduction or elimination of import restrictions and export subsidies.

We still would have serious reservations about the provisions of this bill even if countries were to accept limits on their production. While I believe that the concerns that motivated the introduction of the bill to be quite specific, in practice it would be impossible to limit the application of the provisions of the bill to one commodity.

The effect of the bill would be to require the IMF to make decisions about correct levels of world production and prices, that is, to encourage the kind of practices we have so long opposed.

Lastly, of course, countries would view the effect of this bill as a fundamental change in the character of the International Monetary Fund. This could dissuade countries from cooperating with the IMF to adopt the economic adjustment programs absolutely essential to the resolution of current debt problems.

I would like to say a little bit about the role of Treasury in the multilateral development banks [MDB]. An important concern on our part is that multilateral development banks as project financiers should not injure U.S. copper producers or, for that matter, U.S. producers of other commodities, and we have used our voice and vote to oppose MDB loans for copper. In fact, there is only one such loan in the pipeline, and it is not clear whether or if that loan will go forward.

To sum up, our opposition to the provisions of this bill is based on the judgment that it would not achieve the objective intended by its sponsors to solve the serious problems faced by our copper industry and it would harm other key U.S. interests. This being said, we are very sympathetic to the problems facing the industry, and we are working, both in the Bank and Fund, to try to avoid the trade distorting practices that we now encounter.

Thank you.

[Mr. Hoguet's prepared statement follows:]

PREPARED STATEMENT OF GEORGE HOGUET

Mr. Chairman, I very much appreciate the opportunity to present the views of the Treasury Department on S. 2524, the "Copper and Extractive Industries Fair Competition Act of 1984", this morning. (I will confine my remarks to those portions of the bill dealing with the International Monetary fund and the multilateral development banks, and Mr. Hathaway of USTR will discuss those provision that deal with the Trade Act of 1974).

The main provision of the bill requires that the United States present proposals to the Executive Board of the International Monetary Fund to ensure that countries experiencing shortfalls in export earnings from non-fuel or non-ferrous metals may not borrow from the Fund's Compensatory Financing Facility if such shortfall was produced by declining prices of a non-fuel or non-ferrous minerals commodity in

surplus on world markets, unless the borrowing country agrees with the fund to adjust production and not to add further to excess capacity. It also stipulates that the United States use its voice and vote in the Fund to obtain implementation of policies that would remove hard commodities from eligibility under the CFF.

There are several reasons why the Treasury Department opposes this bill. First, we do not believe that the bill would in fact address the very real problems of the U.S. copper industry. Second, the bill is based on a misperception regarding the role and operations of the IMF and the Compensatory Financing Facility. Third, implementation of the provisions of the bill would create serious distortions in international trade and contribute to inflationary pressures. Finally, the bill would weaken the IMF, the institution at the center of U.S. efforts to deal with LDC debt problems and restore a healthy and growing world economy.

Before elaborating in greater detail, I would like to emphasize that the Administration is aware of the very serious problems now facing the U.S. copper industry, and we are sympathetic to the difficult situation in which the domestic producers now find themselves. The causes of the decline of the U.S. copper industry in recent years are several and complex. They include, among others, declining average ore grades, relatively low by-product revenues, a shift in demand to substitute materials, depressed demand associated with low world economic growth rates, and high level of inventories. In addition, the expansion of foreign supplies from LDC competitors with generally better ore grades and relatively lower operating costs has obviously also had an impact on the long-term position of the U.S. industry. While the dramatic decline in copper prices since 1980 has benefited U.S. consumers, it has caused serious hardship to the U.S. industry.

While I do not believe that this bill would be an effective way of addressing the problems of the U.S. copper industry, I'd like to note that there is trade legislation on the books to respond to the claims of U.S. industry against import competition, and that the industry has petitioned for import relief under Section 201 of the 1974 Trade Act. Section 201 is intended to give an industry temporary relief from imports to allow orderly adjustment to changed competitive conditions.

There was no dissent among the International Trade Commissioners on the question of injury from imports. There were, however, varying recommendations for remedies, and one Commissioner recommended that no remedy be granted. The Administration is in the process of reviewing the Commission's recommendations regarding the copper industry's 201 petition, but has made no decision on options or a proposed recommendation.

We do not believe that the IMF contributes to the problems of the U.S. copper industry. Indeed, the IMF and the multilateral development banks through their efforts to increase the market orientation of other countries and to reduce or eliminate barriers to trade and investment, are valuable allies to U.S. industry.

IMF OPERATIONS

Our belief that the IMF is not among the problems of the U.S. copper industry is based on its essential monetary character. The IMF's financing is intended to facilitate adjustment by providing borrowing countries with an extra margin of time and money which they can use to bring their balance of payments back into reasonable balance in an orderly manner, without being forced into abrupt and more restrictive measures to limit imports. Although money is indeed fungible, it is not possible to say that IMF lending finances a particular sector. The IMF lends foreign exchange in cases of clear balance of payments need, usually to the general resources account of the central bank, to finance any of the wide variety of international payments that countries may make. To say that the IMF finances the increased production of a particular commodity is meaningful only in the sense that foreign exchange received from any source, including export earnings, may be used to pay for a particular piece of imported equipment.

The Compensatory Financing Facility (CFF) is one of several IMF financing facilities. In the last 5 years, CFF lending has accounted for about 30 percent of total IMF lending. In the most recent fiscal year CFF drawings accounted for roughly 11 percent of total Fund lending. The CFF was established in 1963 to provide assistance to countries experiencing balance of payments difficulties due to temporary export shortfalls. The maximum amount a country may draw under the CFF is linked to the country's quota in the Fund, which in turn is based on the relative size of the country's economy. At the time of the last IMF quota increase, the Administration worked to secure agreement to reduce access to all the IMF's facilities as a percentage of quota, including the CFF, to reflect both the new, higher quotas and the necessity to husband scarce resources. Several criteria govern the use of the

CFF; in particular, eligibility to draw CFF resources is based on total export shortfalls, not just one commodity. That is, if a country's revenue from one product or commodity drops sharply, but other exports increase so that total export growth does not slow, a country may not draw upon the facility.

The CFF does not provide unconditional finance. All IMF facilities have two major things in common: they are all directed to a clear balance of payments need, and they are all linked to the pursuit of effective adjustment policies in borrowing countries. For drawings from the CFF up to 50 percent of quota, the IMF must be satisfied that the borrower will cooperate to find a solution to its balance of payments difficulties. For drawings up to the full amount available—83 percent of quota—the IMF must be satisfied the country is cooperating with the Fund by pursuing economic policies which will correct its balance of payments problem, frequently involving adoption of an IMF adjustment program. In fact, Peru, Chile, Zambia and Zaire's CFF programs are accompanied by standby programs which contain strict conditions on economic peformance.

TRADE IMPLICATIONS

The IMF is one of our best allies in the fight against distortions to the operation of free markets. This Administration is working hard to promote open markets and to reduce the use of unfair and distortive trade practices such as government subsidies. We have sought to ensure that other nations avoid such practices by asserting our rights in international organizations such as the GATT and through the implementation of our domestic trade legislation.

The IMF complements these efforts. As I have noted, the primary emphasis of the IMF is on the promotion of sound macroeconomic adjustment policies which will put countries on a stable and sustainable growth path. The IMF seeks to enhance the role of market forces in allocating resources; for example, it encourages the use of market-oriented price signals and discourages subsidies. These IMF goals apply equally to developed and developing country members although the attention of the institution has focused recently on the problems of debtor LDCs.

Rational trade policies are an important element of overall adjustment programs. By facilitating the resumption of sustainable growth and the liberalization of trade policies, Fund programs benefit U.S. exporters and investors in high-debt developing countries. Generally, the IMF encourages countries to develop trade policies which do not rely on export subsidies or excessive import protection. Since the beginning of 1982, nearly 80 percent of all IMF programs have provided for the reduction or elimination of import restrictions and export subsidies.

EFFECTS ON COMMODITY PRODUCTION AND PRICES

Moreover, we would still have serious reservation about the provisions of this bill even if countries were to accept limits on their production. While I believe the concerns that motivated the introduction of the bill to be quite specific, in practice it would be impossible to limit the application of the provisions to one commodity. The United States has long opposed price of production-fixing arrangements on the grounds that the economic distortions they would cause would be counter to U.S. interests. Such agreements tend to freeze market shares to the detriment of new, efficient producers, skew investment patterns, and lead to economic distortions.

The effect of the bill would be to require the IMF to make decisions about correct levels of world production and prices; that is, it would encourage the kind of practices we have so long opposed. The IMF might be led to counter any price decreases, which would push up world inflation and increase prices for U.S. consumers. This would run counter to all our efforts to promote sustainable, non-inflationary recovery at home and abroad, efforts which costs us too much to abandon now. Moreover, I am concerned that we would be granting the IMF substantial new powers.

IMF AND GLOBAL DEBT SITUATION

Lastly, countries would view the effect of this bill as a fundamental change in the character of the International Monetary Fund as the central world monetary institution devoted exclusively to the promotion of a cooperative and stable monetary framework for the world economy. This could dissuade countries from cooperating with the IMF to adopt the economic adjustment programs absolutely essential to the resolution of current debt problems while preserving the open world trade and payments system. The alternative to Fund-sponsored adjustment is a disorderly contraction of world trade and credit accompanied by trade controls.

Because the bill mandates the extension of the Fund into national decisions about individual sectors, it would be viewed as a marked departure from the principle of strict delimitation of the IMF's role relative to national governments that has guided the IMF's role relative to national governments that has guided the IMF since its establishment. It is here that the legislation might backfire—it is not certain that member countries would accept that increase in the Fund's role in national economic decision-making. They might reconsider their cooperation with the Fund, and continue to produce a given commodity at current or even higher levels to earn foreign exchange. Thus, passage of this bill could exacerbate the very production trends it is designed to mitigate.

The stake of the U.S. economy in the health of the international economy is just too great for the United States to take actions which might undermine the international credibility and prestige of the IMF at this critical juncture. In fact, the Administration has been working hard to maintain the essential monetary character of the IMF by assuring the temporary, revolving character of the IMF's financing, by assuring a close linkage between that financing and effective economic adjustment, and by preserving the IMF's limited role compared to private financial flows.

WORLD BANK

The World Bank, like the IMF, also helps to promote adjustment. World Bank lending, particularly structural adjustment lending, and policy advice complements shorter-term IMF lending. In addition, the World Bank, like the IMF, has encouraged countries to undertake trade liberalization programs, particularly in the context of structural adjustment loans.

To comment further on the Multilateral Development Banks (MDBs) for a moment, let me place MDB lending for copper in perspective. To begin with, an important concern on our part is that the multilateral development banks, as project financiers, should not injure U.S. copper producers, or for that matter, U.S. producers of other commodities. In addition, the MDBs have their own reservations about financing projects to produce commodities likely to be in surplus, if for no other reason than that they must be assured of repayment and sensitive to the development impact of their loans. We have used our voice and vote to encourage the MDBs to push for diversification away from copper. Moreover, the Banks are not specialists in financing copper projects. Over the past 5 years, only 0.6 percent ($503 million) of their loans have been for copper.

I believe our opposition to recent MDB copper loans has had an important impact. The IBRD was quite successful in achieving significant policy reforms in a recent copper loan to Zambia. The loan was structured to contribute to an actual reduction in Zambia's copper output. In addition, we believe it likely that Chile, which is among the world's most efficient producers of copper, will meet its future financing needs for copper through alternative, market sources of finance rather than the MDBs.

CONCLUSION

To sum up, the Administration's opposition to the provisions of S. 2524 is based on our judgment that it would not achieve the objective intended by its sponsors—to solve the serious problems faced by our copper industry—and it would harm other key U.S. interests. The IMF is critical to the health of the U.S. economy because of its central role in assuring the continued functioning of the international monetary system. Actions which would undermine its prestige and weaken the effectiveness of its adjustment programs would also undermine the progress achieved in the resolution of the debt situation over the last couple of years, progress achieved with an enormous amount of effort and some pain on the part of the debtor countries and creditors alike.

We do not believe that this particular piece of legislation is the best way to go about assisting the U.S. copper industry. The Administration's efforts to assist U.S. industry instead must be placed on determined implemention of our trade legislation, efforts in the GATT, the IBRD and other fora to press others to abandon trade-distorting policies, as well as on continued efforts to restore conditions for sustained non-inflationary growth at home and abroad through sound policies and international cooperation. Thank you.

Senator BIDEN [presiding]. Thank you very much.

Senator Mathias had to take a phone call. I apologize for coming in in the middle of your testimony. I am the ranking member of

the Judiciary Committee, and we are dealing with a couple of issues downstairs so I can only be here for a few minutes. Let me ask you a few questions, if I may.

Chile has certain competitive advantages, better ore and cheaper labor. Could Chile obtain market rate financing without the help of the World Bank, or the Inter-American Development Bank?

Mr. HOGUET. This is one of the reasons why we voted against a loan in the Inter-American Development Bank to Codelco, the Chilean major copper producer. Of course, Chile has difficult debt service problems at this time, and it doesn't enjoy full access to international capital markets. At the same time, Codelco, the Para-Statal Mining Co. has a very positive cash flow, so in general it has the ability to finance its investments, rather than having to borrow from the Inter-American Development Bank.

Senator BIDEN. There is no reason why they shouldn't finance their projects the same way American companies finance their projects.

Mr. HOGUET. I don't think, in the case of Codelco, that a case can be made for financing from the MDB's.

Senator BIDEN. What you are saying, in that case, is that they should finance the same way we finance.

Mr. HOGUET. Yes.

Senator BIDEN. This administration voted against a $268 million Inter-American Development Bank loan in Chile, to Codelco, as you indicated. Nonetheless, the loan was made because the United States was the only country to vote against it. What steps is the administration taking to get other members, like Canada, to vote against these loans for commodities that the world already has too much of?

Mr. HOGUET. We have been very active. We have raised the issue with the executive directors of both bank boards and the Fund. In fact, on the Codelco loan, Canada abstained. They are also, given the state of the copper industry, concerned about this problem.

Both in the GATT and with the board's of both the Fund and the banks, and with major shareholders of these institutions, we have raised this issue. As I said, we are making what we deem to be substantial progress as it is not clear that there are going to be any more copper loans from the MDB's.

Senator BIDEN. By 1983, Zambia had received some $549 million from the IMF, and Zaire had received $342.5 million in special aid from the IMF. As a condition for the assistance, these countries were told to maximize production and maximize export. What has been the impact of these requirements on world market prices for copper, and has the situation in either country been improved?

Mr. HOGUET. Fund programs don't deal in specific production targets. What they deal in is the broad macro-economic variables. Performance criteria, typically include foreign exchange reserves, balance of payments targets and this type of thing.

In point of fact, the devaluations that have been undertaken in both Zambia and Zaire, obviously affect the copper industry, but they cut across the economy as a whole. Indeed, that is the whole point of a devaluation, it is to try, among other things, to diversify the export mix and try to promote nontraditional exports. So the

programs have had an impact, but in a number of sectors rather than just the copper sector.

Senator BIDEN. Do you know what the impact has been in the copper sector?

Mr. HOGUET. Zambia's and Zaire's copper productions has been dropping. Zambia's production of copper is dropping by about 2.5 percent a year, and Zaire's production has been declining as well.

Senator BIDEN. Which countries would not be producing copper today were it not for project loans from the World Bank and others?

Mr. HOGUET. That is a very difficult question to answer, but my judgment is that probably these projects would go forward in any event if these countries were able to access the financing.

If we look at most of the new projects that have gone forward, for example, in Indonesia, Malaysia, Papua, New Guinea, all new suppliers, those countries have, from time to time, accessed external capital markets. I think that in most cases the projects have gone forward absent World Bank financing.

Senator BIDEN. Would projects have gone forward, in your view, in Zambia and Zaire had there not been the IMF loans that took place?

Mr. HOGUET. I think that the copper production, if financing were cut off, would be the last sector that would stop simply because of the critical importance of copper to those two countries.

Senator BIDEN. Thank you, Mr. Chairman.

Senator Mathias [presiding]. I would pose the same question to you that I did to Senator Domenici. On a scale of 10, what would you assess the impact of exchange rates on this problem?

Mr. HOGUET. It is difficult to quantify. Certainly, it has had an effect on the recent softness of copper prices since March when we have seen copper prices drifting down to about 56 cents on the COMEX. There is no question that it is an incentive for countries to increase production. So it is an element, but here are many other factors—interest rates, speculative inventory liquidation, trends in growth rates in the developed countries. A number of factors come into play.

Senator MATHIAS. I would agree with that, but I think it is a useful thing, I think, to try to place a relative value on what these different factors are if we are going to deal with them in an intelligent way.

Senator BIDEN. Mr. Chairman, do you mind if I try to ask this in a slightly different way?

Senator MATHIAS. Surely, go right ahead.

Senator BIDEN. Which has greater impact, in your view, the value of the dollar or the loans to copper producing countries in terms of impact on the U.S. markets and access?

Mr. HOGUET. I think they clearly both have an impact. The fact is that imports have been growing steadily over the past couple of years. The dollar, as you know, has been very strong, particularly since March of this year, and it has been rising over the past 3½ years.

Clearly, devaluations in developing countries have an impact because they increase the local currency cash flow, and profitability of these companies.

Senator BIDEN. With all due respect, we understand that. We are looking for an answer.

Mr. HOGUET. I would say that MDB loans have only added, I think, in the past 7 years something like 4 percent to world capacity today. So what is driving these production trends are fundamental economics in many of these countries in terms of their relative advantage, higher ore grades, labor costs, and a variety of different factors. In fact, MDB loans since 1977 will have added only a net about 240,000 tons to the world copper production capacity overall by the end of the decade, which is out of free world production of slightly over about 6 million tons in 1983.

Senator BIDEN. Thank you.

Senator MATHIAS. Thank you very much, Mr. Secretary. We appreciate your being here.

Our next witness is State Representative Thomas Foy, a member of the New Mexico House of Representatives. He will be joined at the witness table by other members of the panel: Mr. Richard Osborne, president of ASARCO; Mr. L. Daniel Maxim, president of Everest Consulting Associates; and Mr. Manual T. Serna, who has already been introduced by Senator Domenici, a commissioner from the county of Pinos Altos.

Mr. Foy, you are all too familiar, sir, with our problems of time, so I trust you will understand our 5-minute limitation. Let me say to each member of the panel that your full statement will appear in the record.

STATEMENT OF STATE REPRESENTATIVE HON. THOMAS P. FOY, NEW MEXICO HOUSE OF REPRESENTATIVES, SILVER CITY, NM

Mr. FOY. Thank you very much, Mr. Chairman and members of the committee. I am very happy to be here this morning. We had very short notice, we were pretty busy at home, and we made arrangements to be here to appear before this fine committee and explain the plight of our people in New Mexico

I am Thomas P. Foy, a life-long resident of Grant County, NM. I was born in Silver City, and grew up on a ranch in the mining district of Grant County. I left the county and State on only two occasions. First, to go to college at the University of Notre Dame; and, second, I joined the New Mexico National Guard to get my year of service over with.

Sorry to say that that tour of duty was rather extended, after 43 months in a Japanese prison camp, I returned home. Upon returning home, I was engaged in the practice of law in the State of New Mexico. I have been a New Mexico State Representative now, representing the State of New Mexico, the county of Grant, and Grant and Hidalgo counties for the past 14 years. I am running again this time. I am unopposed, so I hope to return to the New Mexico State legislature.

Senator MATHIAS. You are among the fortunate few in the political world.

Mr. FOY. Thank you very much, I feel that I am.

Having served on the Taxation and Revenue Committee of the House for 8 years, and as the chairman of Banks and Commerce Committee for 4 years, chairman and vice president of the Judici-

ary Committee for 4 years—I am the current chairman of the Judiciary Committee in the House. I am very much interested in the energy and natural resources of our great State of New Mexico.

I wish to commend Senator Domenici and Senator Bingaman from my hometown. His father was my school teacher when I was in high school, teaching chemistry, and I have known the family for many years.

I wish to commend Senator Domenici for his tireless efforts in helping and trying to help solve the problem that is confronting the people of New Mexico, the mineral extractive industries and our State. I hope that this fine committee will act favorably on the legislation that Senator Domenici has introduced. As a legislator, I know that it is going to take time to act. Government has a funny way of taking its time, but usually in the end they do and accomplish what they set out to do.

The copper mines in Grant County date back to the Spanish occupation of New Mexico, and finally in 1910 the mines were opened in Santa Rita by Chino Mine Company, known at that time. Then, after statehood, the mine grew and progressed. For many years New Mexico has been a leader in the production of copper, especially in the Grant County area, uranium and potash.

Our legislature, in trying to meet the problems of the extractive industries, passed a severance tax bill in the middle 1960's, and the reason for passing that bill was to establish a fund for future generations in the State of New Mexico when the extractive industries were depleted, which I feel was very farsighted and good legislation.

Now our Tax and Revenue Committee is looking for means to support our present day needs in education, government, both local and State, and all of the other departments in our State that need funding.

When our copper mines, uranium mines and potash mines were closed, or their operations were curtailed and limited, we not only lost the severance tax income, but we also lost the production tax, the ad valorem tax and the income tax that came for our displaced workers.

I had a visit with Mr. David A. Kinneberg, the president of the New Mexico Mining Association and general manager of Chino Mines at Hurley, Santa Rita, NM, some weeks ago. It was a very disheartening visit. In 1974, there were more than 2,000 copper miners in our area. Today there are less than half that number.

Kennecott has curtailed its employment as well as Phelps Dodge. They are down to about half of what they employed before the shutdown in 1982.

Senator MATHIAS. That is attributed to loss of business and not to modernization of methods?

Mr. FOY. Loss of business, yes, sir. I was told that the price is what brought that about.

It has come to pass, after meeting with Mr. Kinneberg, and he told me that they were going to have to lay off more people, in July they laid off 55 men and women from their payroll that were the last ones hired after they hired them back in 1983. On August 15, they are going to lay off another 150 men and women.

Where will it end? Are they going to close down the mines? We only have a one-industry area, and that is the reason that we are so interested in keeping those mines open.

Something must be done to provide for these people and their families. We are looking to our Congress to remedy the situation. Our State legislature cannot do it. We can provide money when the chips are down, but we cannot remedy a world situation, and our people are looking to you good men in Congress like our Representatives, Senators Domenici and Senator Bingaman. The proposed bill introduced by Senator Domenici will help solve the problem facing our extractive industries and allow them to be competitive in the world market.

I would like to go on and tell you what we are doing in Grant County, what the copper mines are doing, but I notice that time is running out.

I ask this committee to support this legislation in order to help all of the people, not only the people of New Mexico but all of the people who are faced with this dilemma like in Utah, Arizona, and California.

Thank you very much for your time and kind consideration of this matter. I hope I can report favorable action to my people at home in the State of New Mexico, and to my legislative friends in New Mexico.

I am happy that Representative Ryan's statement was introduced. He works for Kennecott, the Chino Mines down in Hurley. He was unable to attend. He is a very fine legislator. He has been with me for 16 years in the legislature. I am just happy that he had his statement introduced so that it will be of record.

Thank you very much.

Senator MATHIAS. Thank you. We appreciate your being here. I know it was a substantial sacrifice, but it is an evidence of commitment that we certainly take notice of.

Mr. FOY. Thank you very much.

Senator MATHIAS. Mr. Osborne.

STATEMENT OF RICHARD De J. OSBORNE, PRESIDENT, ASARCO, INC., NEW YORK, NY

Mr. OSBORNE. Thank you, Mr. Chairman.

My name is Richard Osborne. I am president of ASARCO, Inc., located at 180 Maiden Lane in New York City. This testimony is given on behalf of my company.

I will summarize my remarks this morning in the interest of time; however, with your permission, Mr. Chairman, I would like to submit, for the record, my formal statement which includes additional background on ASARCO and on the nature of the problem.

Let me begin by expressing my appreciation to the committee for holding these hearings and for providing the opportunity to testify on the major concerns facing the American copper industry today.

I would also like to use this opportunity to thank the Senators from the copper-producing States who have been so supportive over the years. I would especially like to recognize the longstanding leadership provided by Senator Pete Domenici who has persistently

sought solutions to the copper industry's problems, solutions such as is represented in his current bill S. 2524.

Since the problem in copper relates to one of excess production outside of the United States, our industry would prefer that a solution be negotiated between the U.S. Government and the governments of the other major copper exporting countries.

The goal of a negotiated approach would be a 5-year agreement which would provide a modest but immediate reduction from the current levels of mine production, and a plan under which production levels at government-owned properties would be adjusted in response to future changes in world copper consumption.

Let me now turn to the issue of public lending by the International Monetary Fund to make up for foreign exchange losses, and by the multilateral development banks to expand production.

Let me say at the outset that ASARCO supports enactment of Senate bill 2524 which would go a long way toward changing U.S. policy as it affects our membership in the international lending institutions.

First, I would like to start with the IMF. IMF policies affect copper and other mineral markets in two ways. First, through the Compensatory Financing Facility, which was established in 1963 "to assist members, especially primary producers, experiencing balance-of-payments problems attributable to temporary shortfalls in merchandise exports." Originally, the Compensatory Financing Facility was limited to soft commodities, generally agricultural products subject to catastrophic failures due to uncontrollable events. It was later expanded to include hard commodities such as copper. The effect of the Compensatory Financing Facility has been to underwrite the reduction in export earnings which has resulted from excess production and to encourage a self-perpetuating cycle of greater production and lower prices.

In fact, the rules for determining a country's eligibility for compensatory finance have directly caused at least a part of the problem in copper. By requiring that a borrowing country demonstrate that the earnings shortfall is caused by conditions beyond their control, the IMF effectively eliminates production management as a means of optimizing foreign exchange earnings.

The second way in which IMF policy impacts our industry occurs through the organization's conditionality or country adjustment program which are preconditions for access to its general credit tranche or other financing facilities. Conditionality generally entails adjustment programs which impose traditional macroeconomic programs on a borrowing country. Such programs include devaluations, tax increases, spending cuts, limits on borrowing, limits on imports, and targets aimed at increasing exports.

Adjustment programs often ignore the market effect of individual commodity exports and single out copper in a way that is harmful to the international marketplace.

Devaluations have also been imposed with the direct intent of improving profitability of a country's government-owned copper industry, in effect subsidizing a reduction in copper export earnings with a reduction in the real wages of copper and other workers.

In connection with their trade petition, the U.S. copper producers last spring asked Everest Consultants to prepare a report on

multilateral lending to the copper exporting countries. The report shows that from 1975 through 1983, a total of $4.4 billion was loaned to the four CIPEC major copper exporting countries, Chile, Zambia, Zaire, and Peru. Nearly $1.5 billion of this amount was from the Compensatory Financing Facility.

Both our Government and the IMF have opposed policy changes that would require consideration of the effect of country adjustment programs or Compensatory Financing Facility eligibility requirements on international commodity markets, or on the balance-of-trade position of other debtor countries.

The result has been a vicious cycle of exploitation of Third World country resources at depressed prices, forcing still further borrowings on an already critical debt situation. The U.S. copper industry has been an unwitting casualty of these policies, but it has had to make it on its own, with such financing as it could obtain from commercial sources at commercial rates.

Finally, competition in the world copper market has been distorted in direct project lending from the multilateral lending institutions such as the World Bank, the Inter-American Development Bank, and the African Development Bank. Development bank lending to major CIPEC producing countries during the 1975 to 1983 period totalled more than $1.8 billion. Over $1 billion of that amount has been authorized since 1982.

The availability of this credit has stimulated additional capacity contributing further to the imbalance that already exists between demand and supply for copper in the world market. Moreover, the development bank loans have been made at concessionary rates or terms, thus providing a cost advantage for that new capacity which is subsidized by our tax dollars.

It seems clear that making low cost credit available to government producers on a sovereign risk basis does not reflect the free market economic principles we are trying to promote throughout the world. We cannot continue to espouse free market principles only for the U.S. market and for U.S. producers. We are dealing with the survival of an efficient and viable U.S. industry, which could prosper under equal and fair rules of competition.

I appreciate the opportunity of presenting this testimony today. Senator Domenici's legislation would go a long way toward redressing the imbalance which has developed in the public financing of government-owned foreign copper competition and we are pleased to support it.

Thank you.

[Mr. Osborne's prepared statement follows:]

PREPARED STATEMENT OF RICHARD DE J. OSBORNE

My name is Richard de J. Osborne. I am President of ASARCO Inc., located at 180 Maiden Lane, New York N.Y. 10038. This testimony is given on behalf of ASARCO Inc.

ASARCO is a major U.S. miner, smelter and refiner of copper, as well as other metals and minerals important to the nation's economic and strategic well being. ASARCO owns and operates copper mines in Arizona, a silver copper mine in Montana; copper smelters in Arizona, Texas, and Washington State; and a copper refinery in Texas. In addition, the company is the leading domestic custom smelter and refiner; i.e., we procees either for our own account or on "toll" for the account of others the coppper ores and concentrates produced by independent miners that do not possess their own smelting and refining facilities. ASARCO employs a total of

approximately 10,000 people in all of its U.S. operations, with about 4,800 employees devoted exclusively to the production of copper.

Let me begin by expressing my appreciation to the Committee for holding these hearings and for providing the opportunity to testify on the major concerns facing the American copper industry today. I would also like to use this opportunity to thank the Senators from copper producing states who have been so supportive over the years of the copper industry and its employees. I would especially like to recognize the longstanding leadership provided by Senator Pete Domenici who has persistently sought solutions to the copper industry's problems, solutions such as is represented by his current bill S. 2524.

My testimony will concentrate on two principal areas this morning. First, I would like to privide a brief discussion of the copper industry's petition for relief under Section 201 of the Trade Act of 1974. Second, I would like to describe what the effects of policies by the international lending agencies have been on the international copper marketplace and what might be done to deal with some of these policies.

As background, the world copper market is cyclical and prices have historically fluctuated based on the balance between world supply and demand. Since the late 1960's, about 40 percent of mine production in the free world has shifted into the hands of government ownership and control, largely as a result of the nationalizations of privately owned properties in Latin America and Africa. The public sector mines have not had to live within the disciplines of a free market system and have not adjusted production when demand has declined. As a result, during the last two recessions the full burden of production adjustment has been borne by private sector producers principally in the United States and Canada. Today, nearly 2 years after the start of the economic recovery in the United States, 40 percent of the U.S. mine capacity is shut down. More than 18,000 workers of the nearly 48,000 workers employed in 1979 are without jobs. Meanwhile, production levels at the government-owned properties in the developing world continue at maximum rates, and indeed some countries have even expanded production during this recessionary period.

Despite sizable demand growth in the United States and some improvement in copper consumption outside the United States, copper prices today remain at or near the lowest levels in real terms during this century and below the cost of all but three or four of the mines in the free world. Prices remain depressed because of the excess inventories which have resulted from this over production outside of the United States and because of the expectation in the marketplace that these uneconomic production policies will continue. The result is that the United States copper industry today is in real trouble. In the last 3 years the industry has lost $1.055 billion in its copper operations and those losses continue to today. Because our experience of the last 3½ years is a virtual repeat of what happened in the 1974-77 copper recession, many companies are at their debt limits, which raises questions about our ability as an industry to sustain the investment programs necessary to assure our future competitive viability.

Faced with this situation 11 U.S. copper producers earlier this year filed a petition for relief from imports with the International Trade Commission. The petition was based on a 122 percent increase in U.S. imports between 1979 and 1983 and on the fact that imports are the means by which the world oversupply problem is transmitted to the U.S. market. Since the United States remains the only truly free market for copper, exports to the United States have absorbed most of the excess production by government-owned producers outside the United States.

On July 16, the International Trade Commission submitted its report to the President, which included a unanimous, 5-0 finding of serious injury and recommendations of tariff or quota relief by four commissioners. Under the law the President now has until September 14 to accept, modify or reject the Commission's recommendations.

Since the problem in copper relates to one of excess production outside the United States, our industry would prefer that a solution be negotiated between the United States Government and the governments of other major copper exporting countries, Chile, Zambia, Zaire, and Peru. The goal of a negotiated approach should be a 5-year agreement, which would provide a modest but immediate reduction from current levels of mine production and a plan under which production levels at government-owned properties would be adjusted in response to future changes in world copper consumption. The U.S. copper industry is concerned with the possible effect on American copper consuming industries from import quotas or tariffs and believes that a negotiated settlement would provide the necessary relief without the adverse side effects which might be caused by import restrictions. Copper consumers are supportive of our efforts to encourage negotiations. We believe that such an agreement would benefit all concerned and in fact raise rather than lower export earn-

ings for the beleaguered economies of the principal copper exporting countries. If negotiations do not succeed, however, our industry believes that the only alternative then would be to insulate the U.S. market for a period of 5 years through import quotas.

Let me now turn to the issue of public lending by the International Monetary Fund (IMF) to make up for foreign exchange losses and by the multilateral development banks to expand production.

Let me say at the outset that ASARCO supports enactment of S. 2524, which would go a long way toward changing U.S. policy as it affects our membership in the international lending institutions.

ASARCO is acutely aware of the sensitivities involved with issues related to Third World lending and the international debt carried by developing countries. Not only is the future growth rate of the copper market ultimately dependent upon economic growth in the developing world, but my company itself has important economic interests in several of these countries. We believe that present policies which are aimed at expanding capacity in an oversupplied market and which have the effect of contributing to even greater levels of overproduction are not in the interest of developing countries themselves. The principles embraced in S. 2524 would provide and important measure of relieve to the domestic copper industry and at the same time add common-sense reforms to the international lending system that is itself exacerbating the liquidity problems of Third World countries which are dependent upon copper for their export earnings.

First, I would like to start with the IMF. The IMF has not only underwritten uneconomic production and export practices of Third World copper producing nations during the last two copper recessions, but has also directly contributed to making the recessions deeper and longer. These policies encourage—and in some cases require—that copper producing countries maximize their output in order to generate foreign exchange.

IMF policies affect the copper and other mineral markets in two ways:

First, through the Compensatory Financing Facility, which was established in 1963 "to assist members, especially primary producers, experiencing balance of payments problems attributable to temporary shortfalls in merchandise exports." Originally the Compensatory Financing Facility was limited to "soft" commodities, generally agricultural products subject to catastrophic failures due to uncontrollable events. It was later expanded to include "hard" commodities such as copper. The effect of the Compensatory Financing Facility has been to underwrite the reduction in export earnings which has resulted from excess production and to encourage a self-perpetuating cycle of greater production and lower prices. In fact the rules for determining a country's eligibility for compensatory finance have directly caused at least a part of the problem in copper. By requiring that a borrowing country demonstrate that the earnings shortfalls caused by conditions beyond their control, the IMF effectively eliminates production management as a means of optimizing foreign exchange earnings.

The second way in which IMF policy impacts our industry occurs through the organization's "Conditionality" or country adjustment programs which are preconditions for access to its general credit tranche or other financing facilities. Conditionality generally entails adjustments which impose traditional macro-economic programs on a borrowing country. Such programs include devaluations, tax increases, spending cuts, limits on borrowing, limits on imports, and targets aimed at increasing exports. It is clear that IMF conditionality during the last two economic cycles has often caused countries to maximize copper production and exports irrespective of the impact on other copper producers some of which are also IMF client nations. Not only do country adjustment programs ignore the market effect of individual commodity exports but there is evidence that these programs frequently single out the copper industry in a way that is harmful to the international marketplace and in turn to the country itself. For example, IMF adjustment programs for Zambia and other CIPEC nations have specified production targets for copper. Devaluations have also been imposed with the direct intent of improving profitability of a country's government-owned copper industry—in effect subsidizing a reduction in copper export earnings with a reduction in the real wages of copper and other workers.

In connection with their trade petition U.S. copper producers last spring asked Everest Consulting to prepare a report on multilateral lending to copper exporting countries. The report shows that from 1975 through 1983 a total of $4.4 billion was loaned to the four major CIPEC countries (Chile, Zambia, Zaire, Peru). Nearly $1.5 billion of this amount was from the Compensatory Financing Facility.

Although it is argued that IMF lending does not directly support copper mining, advances from the fund are often made as a direct result of a shortfall in export

earnings arising from the low price of copper. In 1983 for instance, Chile was eligible for and borrowed $315 million in SDR equivalents because the price of copper was below the 75 cents average contained in the IMF program for Chile. Zaire and Zambia borrowed $240 million and $174 million, respectively, in 1982 and 1983 for the same reason.

Both the IMF and our Government have opposed policy changes which would require consideration of the effect of country adjustment programs or Compensatory Financing Facility eligibility requirements on international commodity markets, or on the balance of trade position of other debtor countries. This opposition appears to be based upon an ideological belief that the IMF must only deal with macro-economic level policies, in spite of the dominance in some developing countries of a single commodity such as copper on both the overall economy and on export earnings. For example, copper accounted for 48 percent of the 1983 export earnings of Chile, as well as 89 percent and 41 percent of the 1982 export earnings of Zambia and Zaire, respectively. The result has been a vicious cycle of exploitation of Third World country resources, at depressed prices, forcing still further borrowings on an already critical debt situation. The United States copper industry has been an unwitting casualty of these policies, but it has had to make it on its own, with such financing as could obtain from commercial sources at commercial rates.

Senator Domenici's legislation would contribute to a solution to these problems by requiring a change in U.S. policy mandating consideration of these issues in the development of adjustment programs for countries heavily dependent upon a single commodity. S. 2524 would also have the United States, as a matter of policy, advocate changes in the Compensatory Financing Facility, making only "soft" commodities eligible for loans covering shortfalls in export earnings and providing incentives for production management by recipient nations.

Finally, competition in the world copper market has been distorted by direct project lending from the multilateral lending institutions such as the World Bank, the Inter-American Development Bank and the African Development Bank. Development bank lending to the major CIPEC producing countries during the 1975–1983 period totalled more than $1.8 billion. Over $1 billion of that amount has been authorized since 1982. The availability of this credit has stimulated additional capacity contributing further to the imbalance that already exists between demand and supply for copper in the world market. Moreover, the development bank loans have been made at concessionary rates or terms, thus providing a cost advantage for that new capacity which is subsidized by our tax dollars.

Our industry was especially troubled recently by a $268 million Inter-American Development Bank loan to Chile in early 1984 as one component of an overall $670 million package intended to expand capacity and to maintain current operating efficiencies at Chile's El Teniente and Chuquicamata mines. This loan was for 20 years with a 5-year grace period and at concessionary interest rates. At the urging of Senator Domenici and others, the United States voted against that loan, but even with 35 percent of the vote, there does not appear to have been much of an effort made by the United States to attract the opposition necessary to turn down the loan. We have also watched with concern a World Bank loan of $75 million approved in March to support rehabilitation of Zambia's copper industry. This loan is part of an overall $300 million project in which the African Development Bank and the European Development Fund will also participate. Meanwhile, in the private sector, both in the United States and elsewhere, we have cancelled all but the most critical capital projects in order to conserve cash and to live within our debt limits.

Chile has announced plans to nearly double its copper mine capacity by the late 1980's. Such expansion plans cannot reflect economically based investment decisions in light of current prices and today's lower expectations for the growth of copper during the balance of this century. At the same time it also seems clear that making low cost credit available to government producers on a sovereign risk basis does not reflect the free market economic principles we are trying to promote throughout the world. We cannot continue to espouse free market principles only for the U.S. market and U.S. producers.

We are dealing with the survival of an efficient and viable U.S. industry which could prosper under equal and fair rules of competition. I appreciate the opportunity of presenting this testimony today. Senator Domenici's legislation would go a long way toward redressing the imbalance which has developed in the public financing of government-owned foreign copper competition and we are pleased to support it.

Senator MATHIAS. Thank you very much.

Dr. Maxim.

STATEMENT OF L. DANIEL MAXIM, PRESIDENT, EVEREST CONSULTING ASSOCIATES, PRINCETON JUNCTION, NJ

Mr. MAXIM. Mr. Chairman, good morning.

My name is Daniel Maxim and I am president of Everest Consulting Associates, a consulting firm with an extensive minerals economics practice. Thank you for inviting me to share some insights with you into the current situation of the world copper market and selected provisions of S. 2524.

There has been extensive testimony this morning about the plight of the domestic copper industry, and so I will skip that portion of my testimony.

I would like to point out that the rest of the world copper industry has also suffered. Like their U.S. counterparts, Canadian producers have idle facilities, as prices have fallen beneath costs, in order to curtail losses and to help balance supply with demand. Losses have been posted for many of the companies operating in Zaire, Zambia, and Peru.

Even in Chile, which has some of the lowest cost copper mines in the world, export revenue shortfalls arising from, among other things, depressed copper prices, have prompted Chilean requests for funds under the International Monetary Fund. Chile's recent economic plans, in fact, were based on an assumed copper price of 75 cents a pound in 1984 and 80 cents in 1985, values unlikely to be realized given the current market conditions.

These lower copper prices translate into lower government revenues and will put pressure on Chile's international reserves. Based upon 1983 output levels, a 1-cent reduction in the average price of copper equates to a shortfall in export revenues of about $26 million, and $19 to $20 million in Chilean treasury receipts.

The foregoing remarks serve to underscore the state that all copper producers, not just those in the United States, have in a prompt recovery of this market.

In any commodity market, price improvement can only occur when a more favorable balance is reached, or anticipated, between supply and demand. For a fixed demand schedule, prices will increase if supply is reduced, so aggregate supply reductions are necessary if prices are to rise. But, however obvious this solution is in the aggregate, it presents a dilemma to individual producing countries.

Taken individually, they do not possess sufficient market share to ensure the production cutbacks will lead to an increase in revenues, so they increase their production to increase their revenues. The need to maintain full employment and generate much needed hard currency receipts also motivates state-owned producers to expand production. But increased output only puts further downward pressure on prices, resulting in greater oversupply.

Some years ago, Anibal Pinto, an economist with the Economic Commission for Latin America, characterized the situation in terms out of Alice in Wonderland. Chile's predicament, he argued, reminded him of Alice in Wonderland where the Red Queen told Alice: "Here you see, you have to run as fast as you can simply to stay in the same place. If you want to get some place else, you have to run twice as fast as that."

Some form of concerted action is necessary to break this self-destructive pattern of excess production in an attempt to compensate for falling revenues that has characterized the copper industry in the past several years.

We have conducted a thorough analysis of the consequences of collective production restraints by various countries. Our analysis indicates that a production restraint of about 15 percent on the part of all the CIPEC countries would cause the world price of copper to rise about 30 percent and would actually increase the copper revenues of CIPEC by about 10 percent after adjustment for the reduced level of their output. A 10-percent increase in copper export revenues is material in terms of total revenues because of the importance of copper to these nations. There are detailed statistics in my testimony that show how dramatic that might be.

The benefits of coordinated action by these CIPEC producers are substantial. The destructive slide in copper prices would be reversed, benefiting all world producers, not just those in CIPEC, and CIPEC's revenues would increase. Such an outcome would also be attractive, in my view, in the context of finding solutions to the dilemma posed by the section 201 petition. Faced with the prospect of import quotas, it is possible that CIPEC producers may favorably reconsider the benefit of negotiated production restraints.

With respect to copper, the section 201 petition is likely to be resolved before S. 2524 becomes law. However, the provision of S. 2524 that calls upon the U.S. Executive Director of the IMF to present proposals to the Executive Board of the Fund to link Compensatory Financing Facility assistance to production restraints for commodities in surplus has merit in my view. Had such a provision been effective and production restraints been exercised by government-owned producers in developing countries, it is likely that we would not now be facing the present copper crisis.

Thank you for you attention. I will be happy to answer any questions you may have.

[Mr. Maxim's prepared statement follows:]

PREPARED STATEMENT OF DR. L. DANIEL MAXIM

INTRODUCTION

Good morning; my name is L. Daniel Maxim and I am President of Everest Consulting Associates, a consulting firm with an extensive minerals economics practice. Thank you for inviting me to share some insights with you into the current situation of the world copper market and selected provisions of S. 2524, the "Cooper and Extractive Industries Fair Competition Act of 1984." My testimony this morning concerns the supply/demand situation in the world copper market and the benefits to nations belonging to CIPEC, the Consejo Intergubernamental de Paises Exportadores de Cobre,[1] of production restraints as an interim measure to permit world copper prices to return to some semblance of normality from the depressed levels of the past 2 years. This is relevant in the context of your deliberations on S. 2524 because it serves as an example of how production restraints that would be a condition of utilization of the Compensatory Financing Facility (CFF) funds from the

[1] The Intergovernmental Council of Copper Exporting Countries was formed in June 1967 by four of the world's largest copper exporters, Chile, Peru, Zaire, and Zambia. In 1975, Indonesia joined CIPEC as a permanent member while Australia and Papua New Guinea (PNG) and later Mauritania and Yugoslavia became associate (i.e., non-voting) CIPEC members. The founding members, termed "CIPEC majors," account for the majority of CIPEC's output—more than 81 percent of CIPEC's total mine production in 1982, for example, according to data presented in the 1982 CIPEC Statistical Bulletin—and are the principal subject of this analysis.

International Monetary Fund (IMF) could actually benefit the applicants as well as other world producers.

BACKGROUND

By now most of you are familiar with the present depressed condition of the world copper market and its severe economic consequences in the United States and elsewhere. Massive layoffs idle capacity, and substantial financial losses to many world producers are some of the painful costs of market oversupply that have caused the real price of copper to fall to depression-era levels in real terms.

Production cuts have been made by some of the world's producers. Between 1981 and 1983, for example, western world copper mine production (excluding the CIPEC nations) decreased by 17.7 percent, whereas mine output from the CIPEC countries increased by 9.8 percent and Chile's output by 16.3 percent. But, on balance, the market remained in oversupply with depressed prices the inevitable result.

The recent petition by 11 domestic copper producers for relief from imports of refined and blister copper under section 201 of the Trade Act of 1974 before the International Trade Commission has detailed the effects of oversupply on the U.S. primary copper industry. However, all world producers have suffered to some degree not just those in the United States. Like their U.S. counterparts, Canadian producers have idled facilities as prices have fallen beneath costs in an attempt to curtail losses and to help to balance supply with demand. Losses have been posted for many of the companies operating in Zaire, Zambia, and Peru. Even in Chile, which has some of the lowest cost copper mines in the world, export revenue shortfalls arising from, inter alia, depressed copper prices have prompted Chilean requests for funds under the CFF. Indeed, Chile's recent economic plans were based on an assumed copper price of 75 cents per pound in 1984 and 80 cents in 1985,[2] values unlikely to be realized given current market conditions. Of course, this lower copper price translates into lower government revenues and will put pressure on Chile's international reserves. Based upon 1983 output levels, a 1-cent reduction in the average price of copper equates to a shortfall of about $26 million in export revenues and $19 million to $20 million in Chilean treasury receipts.[3] The foregoing remarks serve to underscore the stake that all copper producers, not just those in the United States, have in a prompt recovery of this market.

THE PRODUCTION DILEMMA

In any commodity market, price improvement can only occur when a more favorable balance is reached (or anticipated) between supply and demand. For a fixed demand schedule, prices will increase if supply is reduced, so aggregate supply reductions are necessary if prices are to rise. But, however obvious this solution is in the aggregate, it presents a dilemma to individual producing nations. Taken individually, producer nations do not have sufficient market share to ensure that production cutbacks will lead to an increase in revenues. Therefore, many of these nations with government-owned production facilities maintain or even increase production to attempt to compensate for revenue losses from falling prices. (Producers in Chile are apparently able to do so at a profit, albeit a profit substantially lower than if higher prices prevailed, while producers in Zaire and Zambia, for example, have incurred losses.) The need to maintain full employment and generate much needed hard currency receipts also motivates state-owned producers to expand production. But increased copper output only puts further downward pressure on prices, resulting in greater oversupply. Some years ago Anibal Pinto (an economist with the Economic Commission for Latin America) characterized the situation of declining prices for Chile's exports in relation to increases in the prices of Chile's import (called declining terms-of-trade) as,[4]

" 'This means,' concluded Pinto sadly, 'that although we sell more, we must buy less.' "

"Chile's predicament, he argued, remined him of Alice in Wonderland. 'Here you see,' the Red Queen told Alice, 'you have to run as fast as you can simply to stay in

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[2] American Embassy, Santiago, Chile Foreign Economic Trends and Their Implications for the United States: Chile, June 1984, FET 84-55, U.S. Dept. of Commerce, International Trade Administration, Washington, D.C., p. 4.

[3] American Embassy, Santiago, Chile Foreign Economic Trends and Their Implications for the United States: Chile, June 1984, FET 84-55, U.S. Dept. of Commerce, International Trade Administration, Washington, D.C., p. 8.

[4] As quoted in T.H. Moran, Multinational Corporations and the Politics of Dependence, Copper in Chile, Princeton University Press, Princeton, N.J. (1978), pp. 70-71.

the same place. If you want to get somewhere else, you must run at least twice as fast as that.'"

A PRUDENT SOLUTION

Some form of concerted action is necessary to break the self-destructive pattern of excess production in an attempt to compensate for falling revenues that has characterized the copper industry for the past several years. We have conducted a thorough analysis of the consequences of collective production restraints by various countries. The econometric model considers, via short-run supply and demand elasticities, the likely supply response of countries that do not participate in the production cutbacks and the demand-side response of copper consumers. Our analysis concludes that a 15 percent production cutback on the part of all the CIPEC countries would cause the world price of copper to rise by about 30 percent and would actually increase copper export revenues of CIPEC by about 10 percent (after adjustment for the reduced level of their output). This action would simultaneously improve the trade balance and the terms-of-trade of the CIPEC nations. A 10 percent increase in copper export revenues is material in terms of total revenues (because of the importance of copper to these nations), trade balance and in terms of debt service.

Compared to actual results in 1982 (chosen because this is the latest year for which IMF statistics are consistently available for these countries), a 10 percent copper revenue increase would have had the following effects on the CIPEC majors: increased Chile's net balance of trade surplus by nearly a factor of three, decreased Peru's net balance of trade deficit by 8.3 percent, increased Zaire's net balance of trade surplus by 25 percent, and converted Zambia's trade deficit from $45 million to a surplus of nearly $50 million.

Considering the revenue effects on the debt service in 1982 (on public and public-guaranteed debt) a 10 percent increase in copper revenues was equivalent to, 17 percent of Chile's debt service, 3 percent of Peru's debt service, 28.3 percent of Zaire's debt service, and 50 percent of Zambia's debt service. A smaller CIPEC-wide production cut of 12 percent would increase the world price of copper by about 23 percent and CIPEC revenues by about 8.4 percent.

If the production restraints were limited to only the CIPEC majors (Chile, Peru, Zaire, and Zambia), a 15 percent cutback would increase the world copper price by about 22 percent and CIPEC-major revenues by about 3.4 percent, a smaller effect but appreciable nonetheless. However, these estimates may understate the potential benefits of production restraints. Views publicly expressed by industry experts reflect a conviction that the price response to production curtailments and hence revenue effects would be larger than estimated here.

Thus, the benefits of coordinated action by these CIPEC producers are substantial. The destructive slide in copper prices would be reversed, benefiting all world producers, not just those in CIPEC, and CIPEC's revenues would increase. Such an outcome would also be attractive, in my view, in the context of finding solutions to the dilemma posed by the Section 201 petition. Faced with the prospect that import quotas would partially close one of the world's principal markets for CIPEC exports, the CIPEC producers may favorably reconsider the benefits of negotiated production restraints. Such an agreement would permit the price of copper to rise for all producers (whereas a quota would benefit only those in the United States). An attractive feature of this solution is that it attacks the real problem of the world industry—overproduction.

THE RULE OF S. 2524

With respect to copper, the Section 201 petition is likely to be resolved before S. 2524 becomes law. However, the provision of S. 2524 that calls upon the U.S. Executive Director of the IMF to present proposals to the Executive Board of the Fund to link CFF assistance to production restraints for commodities in surplus has merit in my view. Had such a provision been in effect and production restraint been exercised by government-owned copper producers in the developing countries, it is likely that we would not now be facing the present copper crisis. The four CIPEC majors—Chile, Peru, Zaire, and Zambia—for example, have received CFF funds, as have Papua New Guinea, and the Philippines. In aggregate, these countries have more than a sufficient market share (given reported supply and demand elasticities) to ensure that production restraints are rational. So, far from being a punitive action, negotiated production restraints benefit these countries. The IMF could perform a useful role here.

Thank you for your attention. I will be happy to try to answer any questions you many have at this time.

Senator MATHIAS. Thank you, Dr. Maxim.
Mr. Serna, it looks like you are the cleanup hitter.

STATEMENT OF MANUEL T. SERNA, COUNTY COMMISSIONER, PINOS ALTOS, NM

Mr. SERNA. Thank you, sir.

Members of the committee, my name is Manuel T. Serna. First of all, I sincerely wish to thank all of you for the opportunity to speak before you regarding the serious problem we have in the copper industry in New Mexico and other States.

I am speaking on behalf of the county of Grant as chairman of the county commission, and also as a copper worker employed by Chino Mines Co. I a member of the United Steelworkers of America. I am a native of Grant County and very concerned for the condition of employment that has resulted in Grant County due to the excessive injury incurred by the importation of subsidized cheaper copper from foreign countries.

The unemployment levels in Grant County have reached an all-time high of over 30 percent. Local business has been seriously injured, along with the surrounding counties, namely Luna and Hidalgo. As a county commissioner, I do not want the situation to continue in Grant County.

What was once a very stable county is now very insecure, with residents having to relocate, many at an age when retirement is already on their mind. The exodus of residents is very noticeable because Chino Mines Copper Co., Phelps Dodge Copper Corp., and Sharon Steel Corp., are the main industries within Grant County.

Sharon Steel Corp. is now completely closed due to an injured copper market. The other two copper producers mentioned are at this point not in full production. In 1982, Chino Mines Co. had 1,769 employees. Today, Chino Mines Co. has 977 people employed. Kennecott dropped in payroll from $44,225,000 to $24,425,000, which is essentially almost half. Phelps Dodge dropped in payroll from $21,637,000 to $14,225,000.

Grant County has also suffered serious drops in school enrollment, both in the elementary and Western New Mexico University. Business investments are also at a very serious low level. Many unemployed copper workers have had utilities turned off due to lack of income. Unemployed copper workers have lost their homes. We have had a serious increase in crime in this area. Many broken homes have resulted from the excessive pressures that come about from not having a job.

Gentlemen, we have a very serious problem in Grant County as a direct result of the copper industry being injured by extensive subsidized copper from foreign producers. Something must be done to control the unrestrained importation of cheaper copper from South America.

Gentlemen, I believe in a free world market, but not to the extent that we will suffer serious injury to our own industries. I believe that the subsidies being handed over by the International Monetary Fund and the World Bank to foreign countries should be carefully looked at and controlled by the proper authority.

Grant County, at this time, is trying everything it can to diversify into other types of industry that will hopefully help the bad economic situation that has been brought about. Chino Mines and Phelps Dodge are at this time involved in an extensive modernization program trying to stay alive. I believe that were it not for this modernization by the companies trying to cut down costs, the copper industry in Grant County might not exist.

On behalf of Grant County, I hereby urge the proper authority to recommend a combination of tariffs or quotas on imports as remedies which will enable the industry to recover, and put back to work many of the 30,000 workers in nonferrous metals who have been laid off because of the injury incurred by the importation of subsidized cheaper copper.

At this point, I would like to interject that I tend to agree with the proposal made by Senator Domenici on negotiations. It is possible that these foreign countries are anxious to negotiate at this time.

I hereby request this statement be submitted as written testimony on behalf of Grant County and U.S. Steelworkers of America.

Thank you very much.

Senator MATHIAS. Thank you very much, Mr. Serna, for being with us.

I have at this time also a statement presented by C. Michael Hathaway, Deputy General Counsel, Office of the U.S. Trade Representative, regarding the Copper and Extractive Industries Fair Competition Act of 1984. I will insert that as a part of the record.

[Mr. Hathaway's prepared statement follows:]

PREPARED STATEMENT OF C. MICHAEL HATHAWAY, DEPUTY GENERAL COUNSEL, OFFICE OF THE U.S. TRADE REPRESENTATIVE

Mr. Chairman, Members of the Committee, I am grateful for the opportunity to present the views of the Office of the United States Trade Representative on the "Copper and Extractive Industries Act of 1984." We fully share your interest in the problems experienced by the copper industry and our other mining industries.

I will direct my remarks to the bill's proposed amendments to the so-called "escape clause," section 201 of the Trade Act of 1974. I will leave the IMF provisions to other witnesses, who are more familiar with the field of international finance.

At the very outset, I want to emphasize this Administration's strong commitment to section 201. We regard section 201 as a vital element of the trade policy of the United States. We believe that section 201 can and should be used to provide temporary protection to injured industries and to promote long-term adjustment to import competition.

The Administration has not hesitated to use section 201 to promote such adjustment. During the past 4 years, 2 escape clause cases have arrived on the President's desk for a final decision. In both, he granted relief. In Certain Heavyweight Motorcycles, a stiff-tariff rate quota was imposed which will remain in effect until April 15, 1988. In Certain Stainless and Alloy Tool Steel or specialty steel, the President proclaimed both duty increases and quotas. We expect these tariffs and quotas to give our firms and workers breathing space to modernize, and adjust, so that they can emerge from the import relief period to compete effectively.

The U.S. International Trade Commission recently determined that our steel and copper industries have suffered serious injury as a result of imports. Final remedy decisions are due in September and it would be improper for me to prejudge the President's decision on these cases. I can give you, however, Ambassador Brock's personal assurance that both cases will receive thorough and fair consideration. An interagency task force on copper is currently reviewing the question of import relief for the copper industry. We fully recognize that these decisions are of vital importance to both copper producers and users across the United States.

In regard to S. 2524's proposed amendments to section 201, I think it is appropriate to ask of any proposed revision of the trade laws of the United States: (1) Is it on

balance consistent with our national economic interests? (2) Is the change consistent with our international obligations, specifically with the General Agreement on Tariffs and Trade?

Section 201 in its present form implements over thirty years of continuing international negotiations led by the United States. It provides for temporary relief from fair import competition. It is an escape from obligations under the General Agreement on Tariffs and Trade (GATT) not to impose quotas on imports.

Our concern for the GATT-consistency of any revision of section 201 does not rest solely on respect for the rule of law but also on the practical consequences of violations of the GATT. Violations of the GATT can have swift, sure, and drastic consequences. The GATT is a complicated legal document, but its essential concept is very simple. The essence of the GATT is basically a contract. In 1948, we agreed to lower our tariffs and abide by certain rules. In return, other countries lowered their tariffs and agreed to abide by the same rules. If we violate our part of the bargain, other countries can obtain authorization to retaliate against our exports. In other words, they can take back what they've given us by raising their tariffs on our exports. Even worse, they could follow our example and violate GATT obligations of concern to the United States.

This has two consequences that are relevant here: (1) Article XIX of the GATT gives us the right to raise our tariffs or impose quotas if our industries are in temporary difficulty. But, it also gives our trading partners a right to compensation. If we can't provide satisfactory compensation, they are entitled to retaliate in order to even out the balance of concessions.

(2) If we violate the rules of GATT, other countries have a right to retaliate against our trade because we've broken our part of the bargain. Our trading partners usually can understand why we might be compelled to exercise our rights under Article XIX to help an industry that's in trouble and meets the criteria specified in GATT. In general, we've been fairly successful in avoiding retaliation for our Article XIX actions because we've been able to show that we meet the criteria. Our trading partners would be much less sympathetic if they concluded that we were violating the GATT and taking unwarranted and unjustified actions. They would regard this as cheating and they would be much more likely to retaliate.

S. 2524 contains provisions designed to lower the causation requirement in "escape clause" actions under section 201 of the Trade Act of 1974 and to limit the President's discretions to reject an ITC recommendations regarding import relief. Under section 201 as it now exists, an industry must show that imports are "a substantial cause of serious injury," or in other words "important and not less than any other cause." The bill would lower the causation standard by permitting an affirmative finding whenever imports are "a cause of serious injury," rather than "a substantial cause."

The bill proposes a major weakening of the causation requirements of U.S. law and therefore could result in a serious violation of our international obligations under the GATT. Whatever the legal formulation of section 201, GATT members generally accept current U.S. law as compatible with Article XIX. They recognize that whatever the wording of our statute, our practice under section 201 has been in accordance with the spirit and purposes of the General Agreement. Any drastic weakening of the requirements of section 201, however, would provoke a severe reaction from our major trading partners, who would regard such an action as a serious departure from our international obligations and a threat to their trade. As you know, they are very sensitive on this point because of recent actions under section 201. This proposal is not necessary or timely.

We also oppose the provisions of the bill designed to remove the President's discretion to deny relief in section 201 cases and to prevent the President from termination relief during a three-year period immediately following a section 201 action. The law currently authorizes the President to disapprove an ITC recommendation of import relief that is not in the national economic interest of the United States. While import relief can benefit U.S. firms and workers, relief can also have undesirable consequences for U.S. export trade, and competitiveness of downstream U.S. industries. If the costs of import relief outweigh the benefits, we ought not ignore these consequences and blindly relief. In addition, there may be occasions when the early termination of relief is desirable, as when a recovery in the industry renders relief unnecessary or when the domestic industry is unable to produce sufficient quantities of the product to meet U.S. demand. If so, the President should have the power to terminate relief.

Senator MATHIAS. Mr. Serna, you are a member of the United Steelworkers. We have in my own State of Maryland many mem-

bers of the United Steelworkers. I can empathize with your position because of the problems that we have had here. The Sparrows Point Bethlehem plant has been severely hard hit by the decline in the steel industry, and we have had thousands of steelworkers out of work in Maryland. So I know exactly what you are talking about when you talk in human terms about what this does to the lives of the people who are laid off, to their families, and to their outlook on the future.

Has there been any plan within the industry by which workers have taken shorter hours, or lower wages, or made other adjustments of that sort as a result of this situation?

Mr. SERNA. On the last contract negotiation, Mr. Chairman, the Steelworkers froze wages. They did not ask for an increase in wages. We have asked for an increase on nothing. Our benefits have remained the same in order to help the company try to recover. They have contacted us to reopen the contract which we have with them now.

At this point, we have more or less denied renegotiating to cut wages due to the fact that it is our stand that that is not the answer for the world market. If we don't have money to buy cars and houses, we are not going to have any copper to sell. We feel that if we had money to buy cars and houses, or whatever, the vicious cycle will probably take care of itself, if we control the importation of copper. We are looking at any help that we can give the companies, and not go broke.

Senator MATHIAS. I heard very clearly what you said about the tendency of this situation to cause workers to drift away, and that, of course, depresses all elements in the community. As you lose population, everybody suffers.

Mr. Osborne, I have several questions for you, and some of them are statistical in nature. I would suggest, if it is agreeable to you, that we give them to you in writing and ask you to respond to them.

Mr. OSBORNE. That would be fine.

Senator MATHIAS. Then we will make them a part of the record.

Mr. Foy, in addition to your distinguished service in the State legislature, which is something that touches my heart, because that is where I started out as far as elective office is concerned, you have also had a good deal of experience in banking.

Mr. FOY. Yes, Senator, I organized a bank when I returned from the service in 1946.

Senator MATHIAS. Would you like to comment briefly on the lending policies of the World Bank, and financial institutions of that nature?

Mr. FOY. Mr. Chairman, I am not an expert in banking. I am chairman of the board of our bank, and I have been now for 38 years. As far as the World Bank and the International Monetary Fund, I am not too well acquainted and versed in those.

Senator MATHIAS. You must have broken the mold. You are not the normal hard hearted banker who everybody cheers when they see his funeral going down the street.

Mr. FOY. No, I do not have a glasseye, Senator.

Senator MATHIAS. You must be unique. You can run unopposed for the State legislature, and still be chairman of the board of a bank.

Mr. FOY. Mr. Chairman, I would like to report that the success of our bank in Grant County has been working with the labor people, with the unions, and trying to help them during the depressed times or the depressions as they have come along. We have a record, until just last year, of not foreclosing nor taking anyone's car, or house, or any of their property away from them while they were unemployed.

We had a very fine president who passed away. He was very compassionate, and he took care of his people. He had a very fine record when he passed away. We have a new man now who is president of our bank that is not as compassionate. He is a good, fine gentleman, but he runs the bank, I guess, like they run, not the World Bank, but he runs it with an iron hand.

Senator MATHIAS. We admire your work and your very interesting record, and we are very grateful to you for being here with us.

Thank you very much, gentlemen. Thank you all for being here, we appreciate it.

The committee will stand in recess, subject to call of the Chair.

[Whereupon, at 12:04 p.m., the subcommittee recessed, subject to call of the Chair.]

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